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5 October 1984

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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EAST EUROPE REPORT

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HUNGARIAN-ROMANIAN TRADE RELATIONS DESCRIBED

Budapest MAGYAR NEMZET in Hungarian 15 Aug 84 p 5

[Interview with Istvan Jeney, trade attache of the Hungarian Embassy in Bucharest, by Erzseget Toth: "Hungarian-Romanian Trade Relations: On the Basis of Mutual Benefits"]

[Text] Interstate commercial relations between Hungary and Romania are almost 40 years old. They began modestly in the first months following the Liberation with mutual trade of items of vital importance. Petroleum and wood came from Romania: the logs were used in mines for building roof supports. Hungary gave drugs, machines, incandescent bulbs and matches in return. Later primarily materials and material-intensive products came to us from our neighboring country. In the 1950's the first significant shipment of machinery took place when we modernized the Labatlan Cement Factory: the clinker kilns were produced in Romania. In this type of contact between two countries one of the most important points is who helps the other and with what.

[Question] "How did the makeup of trade change over the decades and to what degree has this reflected the industrial development of the two countries?" we ask Istvan Jeney, trade attache from the Hungarian Embassy in Bucharest.

Atomic Energy Equipment

[Answer] Our effort to produce economically and in large series impelled our country to energetically enter the division of labor among socialist countries as soon as possible. In this framework we attributed great importance to Hungarian-Romanian economic relations," sounds the answer. In the 1950's we took part in such significant projects as the development of the Romanian gas network through investment contributions, for example. In exchange we received the raw material, natural gas, from Romania for our chemical works, which were located next to the border. In the 1960's we independently bought licenses to modernize our motor industries from the same foreign company. On the basis of mutual agreement we deliver parts and subassemblies to each other, among other things engines for truck and bus production. In our country a series of unprofitable production lines were closed as a result of selective industrial policies. We try to satisfy our needs through purchases, specialization and cooperation in production.

Trade between the two countries serves their economic development well. It also serves more narrowly defined industrial development in (terms of) tempo and intensity, made possible by the availability of investment funds in each country. It is noteworthy that in the past years the Romanian machine industry has grown significantly and therein production of railroad cars, public conveyances and passenger cars. Partially through their own development and partially through purchases of licenses the Romanians have expanded the most modern product lines, among others the production of airplanes. They produce atomic energy equipment, products of the computer industry, large capacity agricultural machinery, and dry land and off-shore oil drilling equipment.

Cooperation in Motor Vehicle Production

[Question] What possibilities do you see for expanding and enlarging selection in mutual trade in these days, during a time when world trade flows are in a relative decline?

[Answer] Since economic and industrial product lines are similar in many aspects in both countries, this can provide an opportunity for enlarging variety, including the sphere of consumer goods directly affecting the populace. Why even now Romanian men's shirts, women's and children's clothes, sporting outfits and cosmetics, which are even in demand on the world market, are very popular in our country.

[Question] The first gas pipeline connecting two socialist countries was built between Hungary and Romania. The agreement, in the framework of which Romania exports gas to Hungary and we sell machines, machinery complexes and pipes, is 25 years old. In your opinion is it necessary and possible to make more agreements of comparable significance?

Reserves Here and There

[Answer] I think it is not only necessary, but only in this way through long-term agreements can we significantly enlarge our cooperation in industry and in agriculture. We can build our further development through this kind of 10-25 year agreements. This way, mutually, we can make the most of the advantages stemming from our geographical proximity and our capacity to complement each other. Negotiations are underway right now concerning cooperation in the production of motor vehicles; a long-term agreement on the basis of which we could sell more subassemblies and components for the production of Dacias, ARO and Oltcits. We could receive more passenger cars in exchange, for example.

[Question] Hungarian parts also fit Romanian buses and Romanian parts fit Hungarian trucks. In the area of the chemical industry we sell each other intermediate products for the production of drugs. In the machine tool industry we signed a specialization agreement. How could we further develop this type of cooperation?

[Answer] In the 1970's our contacts in the chemical industry were expanded in the production of drugs and pesticides. Possibilities of relatively broad cooperation in electronics and computer technologies have also been outlined.

The above-mentioned examples touch significant areas of our national economy, but cooperation and specialization in manufacturing still does not have decisive weight in relations between Romania and Hungary. Despite the fact the level of economic development in both countries offers many opportunities. From now on our country's selective industrial development policies also provide opportunities for long-term, mutually advantageous economic relations. In Romania, though, a wide range of production has been developed in various areas of industry. Therefore, there is room for cooperation. For example, both sides have built significant manufacturing bases for the production of machine tools. It would be beneficial to specialize further in that industry, in fact we could agree to joint production. A good example of the economic connections between the two countries is a four-part train exported to the Soviet Union; the railroad cars are produced by the Arad factory and the electric locomotive by us. Obviously, it would be a good business to enter third markets together with similar products.

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CSO: 2500/571

DECISION TO PRODUCE VIDEO EQUIPMENT, MARKET VIDEO TAPES

Sofia DURZHAVEN VESTNIK in Bulgarian 14 Aug 84 pp 779-780

[Decree No 43 of the Council of Ministers, dated 2 August 1984, on the Creation and Distribution of Video Movies and Video Programs and the Production of Video Equipment, signed by the chairman of the Council of Ministers, Grisha Filipov, and the chief secretary of the Council of Ministers, Ivan Shpatov]

[Text] To meet the urgent necessity of introducing and using video movies and video programs in all links of the material and spiritual sphere, to create conditions for the accelerated production of video equipment and video materials, to ensure efficient use of facilities and means for video production and video distribution, to strengthen uniform ideological and artistic criteria in this activity for the communist inculcation of the people and for the molding of a personality developed in many aspects, and in conformity with Decision No 224 of the Political Bureau of the BCP Central Committee, dated 28 March 1984, the Council of Ministers decrees as follows:

Article 1. (1) It consents to the formation, effective as of 1 August 1984, within the National Complex of Artistic Creation, Cultural Activity and Mass Information Media, of Bulgarian Video TPSS [Tvorchesko-Proizvodstveno i Stopansko Sdruzhenie; Creative-Production and Economic Association] as a separate juridical person, operating on the principles of profit-and-loss accounting, with its headquarters in Sofia and the following activities as its object:

1. Studying the needs of physical production, science, the educational system, culture, ideological and educational work, medicine, trade, tourism, physical education and sports and other spheres; and planning and coordinating the production, import and export of the necessary video movies, video cassettes and video discs, video equipment and spare parts;

2. Printing and distributing all types of video movies and video programs;

3. Assisting in the use of modern audiovisual aids in museum expositions, galleries, exhibits, mass cultural events, etc.;

4. Coordinating the solution of the main problems involved in the accelerated development and use of video information in our country;

5. Carrying out joint studies, subcontracting and integration in this field through ideological and creative, economic, and scientific and technical cooperation with allied organizations in the USSR, the socialist and other countries.

(2) The Committee for Culture shall arrange the establishment of Bulgarian TPSS. . .

(3) In its operation, Bulgarian Video TPSS shall apply the principles of a private-cum-state basis and the economic approach.

Article 3. (1) The Ministry of Machine Building, jointly with the State Committee for Science and Technical Progress and the Ministry of Foreign Trade, in coordination with the State Planning Committee, shall start up the production of video cassette recorders, video cassettes and video tapes through bilateral and multilateral cooperation and subcontracting with the Soviet Union and the other socialist countries and through production-and-technical and marketing cooperation with firms of other countries.

(2) Pending complete startup of this production, the State Planning Committee, the Ministry of Foreign Trade and the Committee for Culture shall provide for the necessary import of equipment and materials for video production and video distribution within the framework of the plans of the member organizations of Bulgarian Video and by means of earmarked funds.

(3) The Ministry of Consumer Goods Production and Trade, in coordination with the Ministry of Machine Building, shall establish the repair service for public and private video equipment.

Article 4. (1) The Committee for Television and Radio, the Bulgarian Cinematography DO [State Trust], Sofia Press Agency and "Spektur" [Sprectrum] Audiovisual Studio may produce all kinds of video movies and video programs for their own needs and on order of Bulgarian Video TPSS.

(2) State and private organizations which are not producers of video movies and video programs may own and use for their own needs only specialized video recorders and video displays after their compulsory registration in accordance with the established procedure. These video recordings may not be sold outside the country.

(3) Movie-fan clubs and citizens may own video camera and other video apparatus for their own needs only after their compulsory registration in accordance with the established procedure.

Article 5. (1) The Bulgarian Creative-Production and Economic Association shall print, distribute, import and export video movies, video programs and video equipment.

(2) The Committee for Television and Radio, the Bulgarian Cinematography DO, Sofia Press Agency and "Spektur" Audiovisual Studio may import and export video movies, video programs and video equipment for their own needs, Bulgarian Video TPSS to be informed of the video movies, video programs and video equipment they import and export.

Article 6. The distribution of video movies and video programs for departments, economic and other organizations and for citizens for private use shall be accomplished by Bulgarian Video TPSS by sale, rental, and by making them available free for one-time showing.

Article 7. Bulgarian Video TPSS may open stores, booths, studios, etc., for the rental and sale of video movies and video equipment, for rerecordings and other services.

Article 8. The Committee for Culture and the Ministry of Finance, in coordination with the Ministry of Communications and the Ministry of Internal Affairs, shall issue regulations on the procedure for the import, registration, distribution and use of video apparatus, video movies and video programs by juridical and natural persons.

Article 9. Private video apparatus and video recordings may not be rented for payment or used for public needs.

Article 10. Bulgarian Video TPSS shall arrange the setting up of a video library, with bylaws to be approved by the chairman of the Committee for Culture.

Article 11. The Committee for Culture and the Ministry of National Education shall take measures for the training, instruction and qualification of artistic and technical personnel for video production.

Article 12. Violators of this decree shall be punished in conformity with article 32 of the Law on Administrative Violations and Penalties unless they are liable to a more severe penalty. Violations shall be established by a statement of the case drawn up by the monitoring agencies of the Committee for Culture, and punitive decrees shall be issued by the chairman of the executive committee of the okrug (capital city) people's council concerned or by an official deputed by it (him).

Final Provisions

. . .

§3. Control over compliance with this decree is entrusted to the chairman of the Committee for Culture, who shall issue directives regarding the solution of questions arising during its enforcement.

6474
CSO: 2200/191

REPORT ON DEVELOPMENT OF TOURIST INDUSTRY

Sofia IKONOMICHESKI ZHIVOT in Bulgarian 15 Aug 84 pp 1, 11

[Article by Luchezar Abramov, chairman of Bulgarian Tourism and Recreation Association: "Developed Tourist State"]

> [Text] In 1948 14 million trips abroad were made in the world, while in 1982, according to data of the World Tourist Organization, there were more than 280 million. Put together with domestic tourist trips, there were almost 3 billion. This dynamic development of tourism in the past few decades plays a significant role in mutual understanding among people and in strengthening peace and trust among the peoples of the entire world.

Appraising farsightedly the role of tourism in the development of the economy and international relations, as well as the possibilities of turning to account the favorable natural and climatic conditions, the rich cultural and historical heritage and the advantageous location of the country, our party as early as 1948 charged the Council of Ministers with the task of initiating organized international tourism in our country.

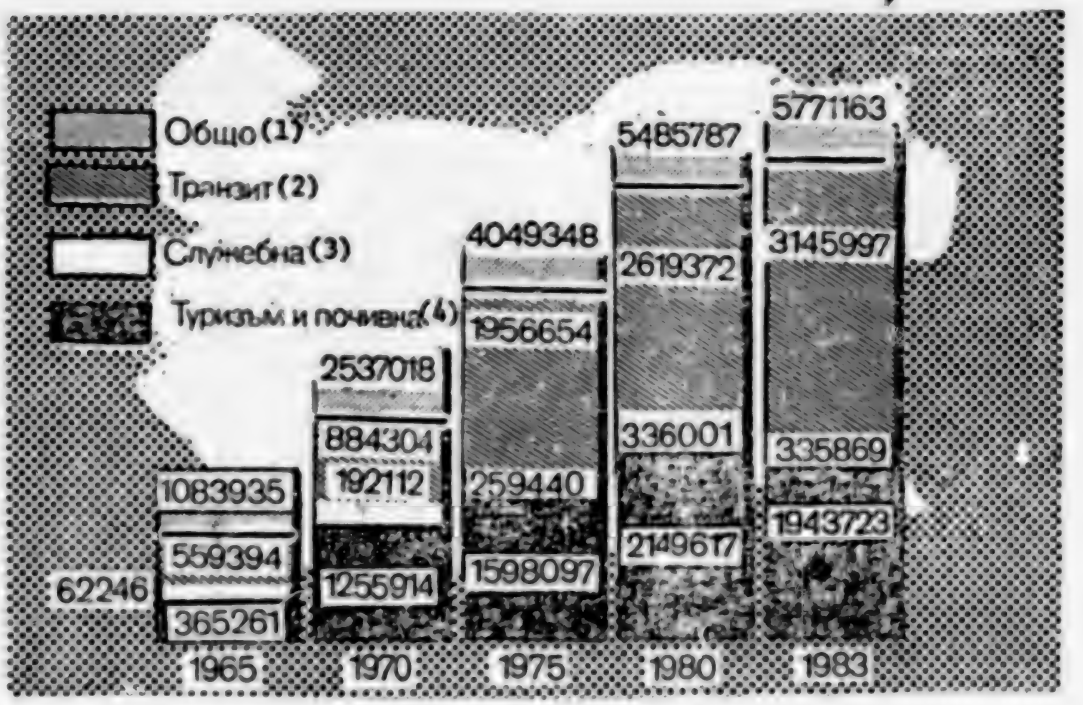
Starting in 1948, international and domestic tourism in our country has registered favorable results, but the true development of these activities began after the historic April (1956) Plenum of the BCP Central Committee. That is why today when we draw up the balance sheet of the ground we have covered, we are entirely justified in saying that tourism is the offspring of the party's April policy, being a result of the constant concern and attention of the BCP Central Committee, of the government, and personally of Comrade Todor Zhivkov.

Efficient Sector

The Bulgarian People's Republic has today become one of the 10 most developed countries in Europe. Our country now has modern rest homes, balneotherapy sanatoria, hotels, motels, campsites, student recreational camps, tourist mountain hostels and bases with a total of over 350,000 beds. Moreover, about 150,000 beds in available private housing are in use for rest and recreation, balneological therapy and tourism. In all, more than 2.5 million Bulgarian citizens annually vacation in the tourism and recreation facilities, while the

country is visited by about 6 million foreigners. At the same time, over 500,000 Bulgarian citizens travel abroad. International and domestic tourism has become an efficiently developing sector of our economy with a significant contribution to the country's foreign-exchange balance.

FOREIGN VISITORS TO BULGARIAN PEOPLE'S REPUBLIC
(breakdown by purpose of visit)



Key:

1. General
2. Transit
3. Official
4. Tourism and recreation

Tourism has a favorable effect on a number of sectors of the national economy, stimulating the springing up and strengthening of many new activities and production processes. The building of roads and the communication network has been accelerated, considerable experience in construction has been accumulated, modern architecture has been developed. A considerable number of conurbation systems, such as Khisarya, Vurshets, Velingrad, Nesebur, Sozopol, Sandanski, etc.,

are developing at an accelerated rate due to the fact that they have become health-resort and tourist centers.

To greet, house and service the tremendous flow of tourists, a 36,000-strong army of tour guides, administrators, information clerks, waiters, cooks, animators, performers, musicians, sports instructors, medical personnel, transportation workers, etc., is employed within "Balkanturist" alone. Thousands of others are engaged in similar activity in specialized tourist agencies--"Shipka," "Orbita," "Koopturist" and "Pirin."

The development of tourism has helped increase the popularity and international prestige of the Bulgarian People's Republic. There has been a significant increase in the direct association and fraternal contacts of the Bulgarian people with the peoples of the other socialist countries and especially with the citizens of the Soviet Union. Many tourists from the nonsocialist countries have become directly acquainted with the socialist way of life in our country.

The decisions of the World Tourism Organization to hold its Sixth General Assembly in Sofia in 1985 is great international recognition of the Bulgarian People's Republic as a tourist country.

Opportunities are consistently being increased and conditions improved for a full vacation of Bulgarian citizens as one of the basic orientations of the party's socialist policy.

Qualitatively New Type of Organization

In view of the fact that, despite the successes that have been achieved, the development of tourism and recreation in our country does not meet the new high demands of the party, the Political Bureau of the BCP Central Committee, at the personal initiative of Comrade Todor Zhivkov, has taken a decision to further improve the administration of these activities.

In fulfillment of this decision, a qualitatively new type of organization, BATO [Bulgarska Asotsiatsiya za Turizum i Otdikh; Bulgarian Tourism and Recreation Association], was established on 21 October 1983.

Of all the forms of the administration of tourism thus far, the most characteristic feature of the Bulgarian Tourism and Recreation Association is that it is established on the basis of the private and state principle. On the one hand, the association is a voluntary socioeconomic union, which has as its purpose to organize, assist and direct the unfolding of the creativity and activity of its member organizations in order to raise the efficiency of tourism and improve the conditions for Bulgarian citizens' vacation, while, on the other, it is a state agency of the Council Ministers for conducting a unified state policy in tourism and recreation in the Bulgarian People's Republic.

In conformity with the development of socioeconomic relations and the administration of the national economy, the Bulgarian Tourism and Recreation Association conducts its activity on a broad democratic basis. It does not take away the functions, rights and areas of competence in tourism and recreation of

departments and organizations, with which they are vested by prescriptive enactments, nor does it infringe upon the legal and economic independence and departmental subordination of the more than 150 member organizations.

With the establishment of the Bulgarian Tourism and Recreation Association a qualitatively new integrated system was created for the administration of the socioeconomic processes in this sphere. It is a system conforming to the principles and new forms of the country's social administration and making it possible to use the entire national economic potential for the needs of tourism and recreation.

This decision is a further development of Comrade Todor Zhivkov's innovative ideas on the employment of associative forms in the management of the national economy, a striking manifestation of the Leninist principle of democratic centralism, an expression of the democratic spirit of our political system.

The Bulgarian Tourism and Recreation Association is now fulfilling simultaneously not only the rights and duties of a private and state agency for the management of tourism and recreation, but also the administrative functions of "Balkanturist" Corporation, to which the 25 tourist complexes of "Balkanturist" belong, namely, "Balkanturist" VTO [Foreign Trade Organization], "Korekom" VTO, "Turist[in]zhenering" [Tourist Engineering] IVO [Inzhenerno-Vnedritelska Organizatsiya; Engineering Applications Organization], Tourist Information and Reservations SO [Economic Trust], Tourist Propaganda and Publicity Center SO, "Turiststroy" [Tourist Construction] SMK [Construction and Installation Combine], Scientific Applications Institute for Tourism and Recreation, Continuing Education Center for Managerial Personnel, International Events Center SO, the "Interkhoteli" [International Hotels] and "Marshrutni Khoteli" [hotels on a fixed itinerary] hotel chains, etc.

Basic Problems

The Bulgarian Tourism and Recreation Association faces two main problems to be solved. In actively implementing party policy in tourism and recreation it must:

First, provide good conditions for mass tourism and recreation for Bulgarian citizens, fully restore their energies and fitness for work and in this way create the preconditions for raising the social productivity of labor;

Second, ensure high social and economic efficiency and increase international tourism's share of the country's national income.

In keeping with the decisions of the National Party Conference, the Bulgarian Tourism and Recreation Association has also adopted a Comprehensive Program for Improvement of Services in Tourism and Recreation. On the basis of this program we are elaborating the long-term development of tourism and recreation, which in future will develop on the basis of the high quality of services.

One of the fundamental problems confronting us now is to ensure the large-scale and accelerated introduction of scientific and technical progress. For this purpose we are improving the system for the administration thereof, creating

conditions for the employment of modern, high-efficiency scientific and technical achievements on an economic basis. We shall tie in the accomplishment of this task as closely as possible with the task of restructuring our investment policy, with priority channeling of capital investment into renovation of the existing tourism and recreation base and into renovation of applied technologies on the basis of advanced solutions.

Simultaneously, health-resort and tourist centers will be built as a complex; an additional tourist infrastructure, which will meet primarily the demand for active recreation and attractions (sports, physical prophylaxis, balneological therapy, games, entertainment, etc.), will be constructed at an accelerated rate. For this purpose, the additional priority construction of sports fields and facilities, outdoor and indoor swimming pools, ski lifts, playing and entertainment facilities, balneological structures etc., will be carried out at health-resort and tourist centers.

The sectorial automated system for the administration of tourism and recreation will continue to be set up at an accelerated pace.

In Line With Economic Approach

We are also faced with the problem of bringing our entire activity into line with the requirements of the new economic approach and its mechanism.

Since the beginning of 1984 "Balkanturist" Corporation has shifted to being entirely self-supporting. Now it no longer receives any subsidies from the state. All the brigades and economic organizations of the corporation have likewise shifted completely to profit-and-loss accounting.

Of special importance for us is the further improvement in the specific regulations for application of the economic mechanism whereby conditions will be created that will provide incentive for high-quality, highly productive labor, initiative and enterprise.

There are many factors on which the development of tourism and recreation and the quality of operation depend. Ranking first, however, is the decisive role of the subjective factor--the human being, the force on which, in final analysis, the quality and standard of services depend. For this purpose, BATO is taking decisive measures to raise the educational level, language qualification, general culture, discipline and inculcation of personnel.

In our overall activity to develop tourism and recreation, we attach fundamental importance to the devising and introduction of a comprehensive quality-control system for health-resort and tourist activity, which problem we must solve by the end of the present five-year plan. For this purpose we shall devise and introduce a new, scientifically validated normative base, a more efficient monitoring system, etc.

To ensure intensive development of tourism and recreation, the organization of services will consistently be improved, and the supply of new types of tourist offerings, goods and services will be expanded and diversified.

Wide use will be made of the principle of the specialization of tourist complexes.

Ensuring optimum utilization of tourism and recreation's material base, natural resources, and expanding Bulgaria's market share will be effected in the years ahead by a flexible, market-oriented trade policy. That policy will be determined by the basic trends of tourist demand in our country and abroad and by the intensifying competitive struggle in the international market.

In the 1986-1990 period still fuller use will be made of integration processes among CEMA-member countries to expand our market participation through an increase in the offering of combined recreation, trips of specialized interest, round-trip tours, etc.

In the nonsocialist market our participation will be aimed mainly at offering a specific Bulgarian product, new forms of sea and mountain tourism, as well as specialized trips.

To ensure realization of the anticipated foreign-exchange revenues from international tourism, new construction of a tourist base will be completed in the next few years, but this will be concentrated mainly where the calculated efficiency thereof will be assured.

The opportunities for Bulgarian citizens to vacation abroad will increase significantly, too.

It is anticipated that in 1990 about 50 percent of Bulgarian citizens will participate in various forms of short vacation, with about 2.5 million persons regularly taking a week's vacation away from the conurbation where they live.

About 4 million Bulgarian citizens will be covered by various forms of annual vacation and balneological therapy in 1990, with about 70 percent of the annual vacation needs satisfied, and 90 percent of the needs for balneological therapy of employees in physical production.

> There is no doubt that under the leadership of the Bulgarian Communist Party tourism and recreation will be brought up to a new and higher-quality level in the next few years and that these activities will make their contribution to the building of a developed socialist society in the Bulgarian People's Republic.

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ECONOMIC INTENSIFICATION CRITERIA, STRATEGY OUTLINED

Prague HOSPODARSKE NOVINY in Czech 24 Aug 84 pp 8-9

[Article by Engineer Miroslav Toms, DrSc: "Criteria and Strategy"]

> [Text] Already the 14th and 15th CPCZ Congresses set the strategy of the party's economic policy, a strategy of raising efficiency and increasing the factors of intensive growth. New in the resolutions of the 16th CPCZ Congress is primarily the emphasis on the urgency of solving the problem that switching the economy completely to the track of intensive growth is the only alternative of further development. Another new element is that economic policy in every major sector must be subordinated to the task of the economy's intensification. This congress resolution is a basic requirement, a criterion for all the economic-policy measures and modifications that are being prepared and approved at the individual levels of management. We must bear this criterion in mind also when evaluating the economic results and changes.

Economic evaluation of the results in the process of the economy's intensification has often been characterized by data on how much the rise of labor productivity contributed to the reported growth rates of production. Although this characteristic is important, we must bear in mind that it is limited when it comes to evaluating the actual results in switching the economy to the track of intensive growth. Even when the entire growth of production is achieved by raising labor productivity, we cannot say that the switch to intensive growth has been completed.

This is because a rise of labor productivity may be accompanied (as in practice it very often is) by a worsening of the other indices of cost-effectiveness [ratios of output to cost]: by a nonoptimal rise of production's capital intensity, raw-material intensity or energy intensity per unit of output. A rise of the indicator of labor productivity under such conditions not only does not necessarily mean a rise of production's overall (aggregate) index of cost-effectiveness, but it might have been achieved when this index was stagnating or even declining.

Partial Intensification

Partial intensification in economic theory means a process in which the efficiency improves of one or more, but not all, factors of expanded reproduction. Intensification from the viewpoint of one factor of the production process (of labor, for example) may occur parallel with the extensive utilization of another factor (say, of fixed capital). On the other hand, comprehensive intensification occurs when all the partial indices of cost-effectiveness are rising over time.

The different types of intensification process can be shown schematically as follows:

Types of intensification process	alpha	beta	gamma	delta	omega
Growth rate of					
Labor productivity	+	+	+	+	+
Energy intensity	+	?	-	-	-
Raw-material intensity	+	+	?	-	-
Capital intensity	+	+	+	?	-

All are intensification processes from the viewpoint of labor because the growth rates of labor productivity are positive. But the processes mutually differ in the degree of embodied labor's intensification. The first process, alpha, is a process in which all the components of embodied labor develop extensively: there is a rise in production's energy intensity, and in its raw-material intensity and capital intensity as well. In the other types of processes there is, in addition to intensification from the viewpoint of labor, also gradual intensification of the individual components of embodied labor. Partial intensification goes over into comprehensive intensification.

The question mark in process beta means that the energy intensity rises or declines (the utilization of energy changes from extensive to intensive) in some phases of development. In the higher process, gamma, there already is intensification from the viewpoint of energy, and a changeover to intensification is taking place in the consumption of raw materials. In process delta there already is intensification in terms of energy and raw-material consumption, and a changeover is beginning to intensification in the utilization of capital. Finally, process omega is the model of comprehensive intensification.

Let us analyze from these points of view the development in the 1970's and 1980's to date (Fig. 1). We find that in the 1970's the Czechoslovak economy was fluctuating along the borderline between partial intensification processes of types beta and gamma. The successes in raising labor productivity and reducing energy intensity were offset by the rise of production's capital intensity and raw-material intensity. Development at the beginning of the 1980's was marked by a sharp decline of the dynamics of economic growth, which was projected also into the unsatisfactory dynamics of labor productivity. Energy-efficient development continued, in combination with a rise of production's capital intensity and of productive consumption's share. But if we examine the development of material consumption (i.e., of productive consumption without depreciation), we see a moderate intensification of the social product's growth, which could indicate the start of a changeover to an intensification

process of the delta type. As the 10th session of the CPCZ Central Committee established, the 1983 results indicate the activization of the factors of intensification.

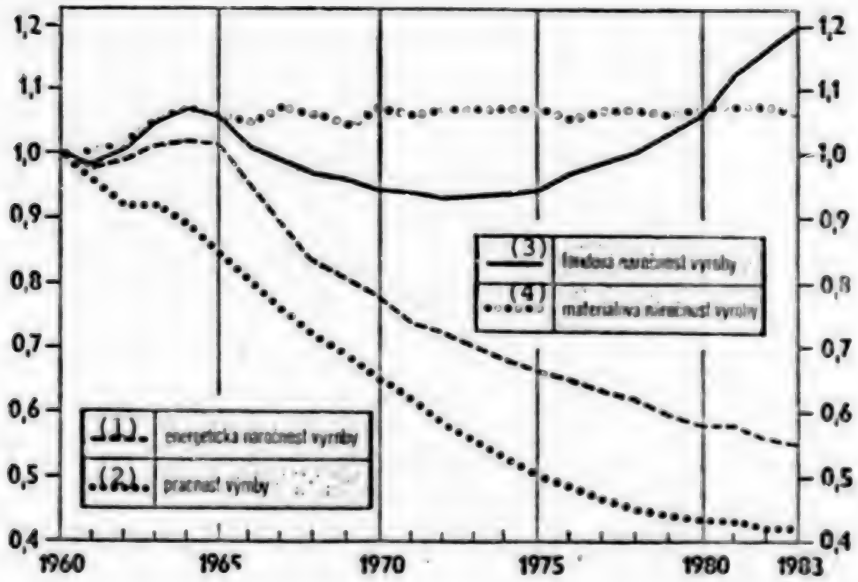

Figure 1. The dynamics of partial intensification in 1960-1983 (in percent)
Key:
1. Production's energy intensity
2. Production's labor intensity
3. Production's capital intensity
4. Production's material intensity

Development of the Predominantly Intensive Type

In the case of partial intensification processes, the resultant character of the type of development depends on the overall result that shows the efficiency of the processes of substitution between the individual productive resources.

Even partial intensification in terms of several factors can be sufficient to achieve a turnaround to a predominantly intensive growth of production, i.e., a dynamics such that a decisive proportion of the increase in production is obtained through greater economies in production. This depends on the following:

--In which resources is the process of intensification taking place. And are they resources that account for a large or a small share of the total cost.

--At what rate is intensification taking place. What is the "gap" between the rise of efficiency in the utilization of the given resource and its input volume.

Analyses of the Czechoslovak economy indicate that partial intensification processes of the alpha, beta and gamma types are entirely inadequate for

switching the economy to the track of intensive development. A decisive proportion of the costs, the consumption of materials and capital, remains outside the process of intensification. Of strategic importance for stepping up the process of intensification, therefore, is a basic turnaround in economizing embodied labor (raw materials and intermediate goods, and capital assets). Here lie the basic reserves of the intensification process. Switching the economy to the track of intensive growth requires therefore a changeover to intensification processes delta and eventually omega. This is why the 16th CPCZ Congress and the subsequent sessions of the CPCZ Central Committee have set the tasks of economizing energy, metals and raw materials, calling for a further increase of these savings.

From which it does not follow that savings of direct labor are becoming less significant. While emphasizing the need to conspicuously economize embodied labor, we must not fall into the opposite extreme and limit the problem of efficiency merely to the indicators of raw-material intensity and capital intensity. Although the share of labor productivity's rise in the growth of production is high on average, only in a few industries for the time being is the rise of labor productivity the sole source of the growth of production. At the same time, the higher phase of the intensification process is distinguished by a broader absolute replacement of direct labor (i.e., by reductions of the work force), which is a prerequisite for society's development.

One of the tasks that the 10th session of the CPCZ Central Committee has set is to ensure a 1-percent rise of labor productivity over the tasks of the enterprise plans. The faster rise of labor productivity and cost reductions are two ways of ensuring the necessary growth of national income. Therefore the party definitely rejects a continuation of the extensive methods of ensuring the growth of production. It rejects the persisting tradition of greater emphasis on the production volume's quantitative growth than on product quality and efficient use of production assets.

Hence it follows that we now must set conspicuously stricter criteria and requirements for evaluating the results of current economic activity, and especially for the investments that are being approved and the technology that is being introduced. Present decisions regarding economic alternatives and choice of the volume and structure of investments, directions of research and development, technical and technological alternatives, specialization, etc., predetermine to a considerable extent the future development of efficiency. These decisions determine the potential level of the national economy's efficiency that is based on the chosen alternatives. It then depends on the degree and dynamics of this potential's actual utilization. These are questions of the current reserves for the rise of efficiency; they stem from the modes of the economic potential's utilization and from the functioning of the economic mechanism.

But we find that in the course of proposing new investments, and also in designing, producing and introducing new machinery and technologies, adequate requirements are not being set for reducing production costs and improving the quality of the products made with them. Even cases are not rare where the investments and new machinery are more capital-intensive than the capacities they are replacing. They are being proposed merely to be produced, and not on the basis of economic justification. In all these cases technological progress

characteristically is interpreted more as a means of increasing the production volume or as "innovation" for technology's own sake, and less as a bazic motive force of the law of the economy of time: i.e., of reducing the social cost and increasing the utility value, which are inseparable material prerequisites for better supplying the needs of society's members.

The various partial indices of cost-effectiveness do not permit consideration of these questions. This can be done only on the basis of the so-called synthetic (aggregate) indices of cost-effectiveness that compare the total output with society's total input cost.

Aggregate Cost-Effectiveness

Analysis of the intensification process has shown that in practice we have to evaluate innovative changes that typically are different combinations of the productive resources and their efficiencies. Sound economic (and not merely technical) decisions regarding these directions can be made only when the criterion for their evaluation is an aggregate or synthetic index that takes into consideration not merely one type of cost, but possibly all types of cost that have been incurred. The essential question is how the overall economization of social labor develops, i.e., will the given measure result in an overall saving of resources per unit of output or not.

Under the new conditions of the reproduction process in the 1980's, every link of economic management must have an incentive to reduce the total cost of social labor, not merely some of its components. The reduction of merely some cost components often results from economic management's measures that break down linearly (without regard for the specific conditions and the development of the other costs) the tasks of reducing the intensity of this or that productive resource. However, these limits and resources change constantly, and therefore fulfillment of the breakdown does not permit real and long-term costing, and hence rational substitution of productive resources and the application of socially efficient innovation.

To constructively overcome these contradictions of giving subjective preference to some indicators at the expense of others, one must find the optimal combination of partial factors that will provide the maximum benefit. The aggregate criteria that synthesize the statements of the partial indices of cost-effectiveness provide a particular solution. A policy to increase the national economy's final benefits and the implementation of this policy presuppose that evaluation of the development of economic efficiency starts out from a comparison of the production results with the resources, in the most comprehensive sense, that society must expend on their reproduction. In other words, the outputs of the economy's individual links must be compared not only with the costs of direct labor, but also with the material and energy costs, and with the capital committed to the reproduction process. The aggregate criterion of cost-effectiveness, generally defined as the ratio of output to the total social costs, must be constructed on this principle.

The aggregate criterion of cost-effectiveness, which is the essential component of the aggregate criterion of economic efficiency, can be expressed and specified in various ways. A common feature of all the approaches, however, is that

they mostly use the weighted arithmetic average of the partial cost-effectiveness indices' rates of growth (or decline). The synthetic criteria can be written in the following general form:

$$G(H) = a_1 G(z) + a_2 G(m) + a_3 G(e) + a_4 G(f) + a_5 G(o)$$

where the letter G denotes the growth rates (or rates of decline) of the aggregate cost-effectiveness G(H), labor productivity G(z), efficiency of material consumption G(m), efficiency of energy consumption G(e), efficiency of fixed capital G(f) and efficiency of circulating capital G(o). The weights a_1 to a_5 give the proportion of the given resource's cost to the defined total cost and determine the relative importance of the individual partial indices of cost-effectiveness included in the synthetic index.

The various synthetic criteria differ in the weights assigned to the individual partial indices, and also in what partial indices they include. Specification of the synthetic criterion of cost-effectiveness must respect first of all the peculiarities of the individual levels of management within the socialist economy's hierarchic system, peculiarities reflected in the concept of costs. At the enterprise level, the weights are determined by the structure of the production costs whose importance from the viewpoint of improving profitability must be strengthened. At the level of the economic production units and industries it is convenient to employ the concept of full macroeconomic cost that Soviet economic theory has developed.

The results of computing this aggregate index of cost-effectiveness, which the CSAV [Czechoslovak Academy of Sciences] Institute of Economics developed for the productive sphere, are presented in Fig. 2.

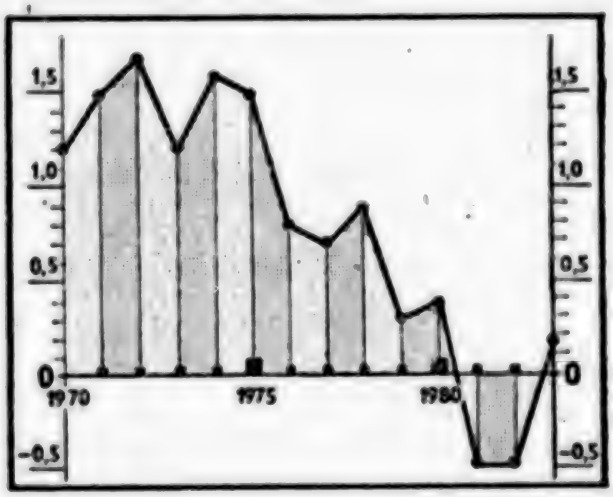

Figure 2. Dynamics of the aggregate cost-effectiveness in the productive sphere in 1970-1983 (in percent). The aggregate cost-effectiveness is the ratio of output to total cost (see text)

Output's Social Utility

The other reason why the traditional indicators of labor productivity are inadequate is that production for production's sake is not a characteristic of socialism. It follows from the basic economic law of socialism that production must aim to ensure as completely as possible the needs of society and man's all-round development. This determines the new role of the category of utility value, because the needs of society are satisfied by means of goods, or rather through their utility values. Therefore primarily the physical volume of national income and services is the vehicle for satisfying needs.

However, we must not forget the final national economic benefits that manifest themselves in the attained level of social utility. This level depends on a twofold relationship between the produced output and the needs of society:

—The relationship between the individual products' technical and economic level, and the socially necessary level of quality; and

—The relationship between the total volume of individual goods, and the demand's volume, structure and intensity.

These relationships transform the production volumes into final national economic benefits, into a real rise of the country's level of economic well-being. Hence it follows that the indicator of final national economic benefits is not necessarily the entire volume of national income (or of value added, at the lower levels of management), but only that part of the volume which meets the needs of society in terms of quality and structure. Failure to observe this requirement leads to so-called idle growth of production and, in the final outcome, to a loss of the expended labor's efficiency, because economic efficiency is an integral unity of both aspects: of the aggregate cost-effectiveness, and of the output's social utility. When either aspect is not met, the resultant efficiency declines.

We often find that economic efficiency is reduced merely to the aspect of cost-effectiveness, with the enterprises reporting only the cost level or its reduction. But even products produced at low cost are economically inefficient if they do not meet society's needs (so-called idle stock). Social labor is being squandered, even though its expenditure is seemingly "cost-efficient." But a relative loss of efficiency occurs also in other, less obvious, cases of violating the aspect of social utility. For example, products of greater social utility value than the ones being produced are not produced at all; or they are being produced but their output is inadequate and, instead of increasing the output, products of lower social utility value are being produced.

Very often these phenomena are regarded only as problems of economic equilibrium, as manifestations of microeconomic (or mesoeconomic) disproportionality. In view of the mentioned relationships within the comprehensive criterion of efficiency, however, such violations of equilibrium simultaneously mean that the attained level of efficiency is lower, because the final benefit from the expended resources is lower. The development of cost-effectiveness does not match the development of social utility. Important under the present

conditions, therefore, is not only the question of growth rate, but especially the question of the attained growth rate's quality.

The development of inventories provides a partial quantification of this problem. It can be established that, each year under the 7th Five-Year Plan, inventories grew faster than value added, and the planned inventory turnover was not observed. The planned inventory levels were exceeded by 2.8 billion korunas in 1982 (in industry and construction), and by 3.0 billion in 1983. The causes of this development were particularly the following: failure to observe the output's planned use; departure of the production structure from the structure of the demand; wrong assortment; shortcomings in supplier-user relations, etc.

Thus shortcomings in economic development's equilibrium can result in that production's social utility does not necessarily develop commensurately with the dynamics of cost-effectiveness, which in the final outcome may slow down or arrest the growth of efficiency. For these reasons there may occur also cases of inefficient intensive growth, or of intensification with declining efficiency. To a considerable extent, such cases are very special because intensive development and efficient development are inseparable in the overwhelming majority of situations. In principle, intensification leads to greater national economic efficiency. But because shifting the economy to the track of intensive development is of basic strategic importance, these cases must be noted to distinguish them from efficient intensive development.

We have in mind the following cases of intensification or intensive development:

1. Production whose output is socially useless, either because society's demand for the products in question is saturated, or their quality is low. In either case, intensification leads not to better supply of demand but to actual losses, because productive resources are being expended uselessly (albeit in an intensified manner).

2. Production whose output does have (positive) social usefulness, but its decline is faster than the rise of cost-effectiveness. This can happen in the following instances:

--Changes in the structure and assortment lead to a switch from products of high social utility to products of low social utility. As a result, the growth of social utility either slows down or declines in relation to the growth of production and cost-effectiveness;

--As a result of the interaction between supplying various needs, this development may cumulatively reduce the extent to which other needs are supplied, so that the overall extent to which demand is supplied may drop further;

--The rise of cost-effectiveness occurs at the expense of product quality. This kind of "intensification" also leads to a decline of social utility;

--The cost-effectiveness and volume of the given output rise (i.e., the other types of cost-effectiveness occur) while the demand for the output stagnates or

drops, so that the additional output's social utility is lower (or zero in the extreme case);

--The rise of cost-effectiveness is achieved parallel with a greater adverse ecological or social impact.

These situations indicate the various possibilities when the rise of cost-effectiveness may be in conflict with the aspect of satisfying society's needs; in other words, when the rise of the cost-effectiveness indices is not necessarily a symptom of rising national economic efficiency. Hence it follows that orientation on reproduction of the intensive type increases the importance of proportionality, the violation of which not only leads to direct losses in the reproduction process but also slows down the growth of efficiency. The strategy that the 16th CPCZ Congress set requires orientation on efficient intensive development. To fulfill the requirements of economic efficiency in the socialist economy's planned management, therefore, it is necessary to comprehensively align the utility values with the costs of social labor, and to subordinate the process of intensification to the basic economic law of socialism.

Economic Mechanism's Perfection

The problem of switching to an intensive type of development is sometimes interpreted narrowly as merely a question of productive forces, and of their quality and structure. Herein actually lies the material and technical aspect of the necessary change, especially in the scientific and technical revolution's last phase that promises revolutionary technological innovation. At the same time, however, we must see this process in the general dialectics of social production's both sides: of the productive forces and production relations. Together with the implementation of intensification measures, it is necessary to solve also the question of perfecting socialist production relations that are based on socialist ownership of production assets.

Therefore it is not possible to switch to the new track of development without appropriate changes in the system of planned management, changes that reflect the perfection of production relations. Thus the perfection of production relations and of the economic mechanism is an integral part of the party's economic policy that aims for intensification and a substantial improvement of efficiency.

Entire society's criterion of socioeconomic efficiency does not assert itself automatically under socialism, and it does not ensure automatically the efficient allocation and use of productive resources. From the essence of socialism's economic laws and from the forms of their implementation it follows that this criterion must become a part of social production's purposeful management at every level, particularly at the central level where planning decisions lay the foundation for a decisive series of changes in the level of efficiency.

Thus the point first of all is to overcome the duality or dichotomy of the plan's indicators and the indicators of efficiency. In other words, we want the criterion of efficiency to become the main consideration in evaluating the quality of planning and economic activity. Only if this prerequisite is met

can there occur the necessary basic change in economic thinking, the desired turnaround in the economic subjects' motivation, and the formation in most officials of a positive attitude to intensification and the improvement of efficiency.

The criteria for the behavior of the individual systems are explicitly or implicitly built (coded) into the instruments, methods, relations and mechanisms of each specific system of management. They follow systematically from the logic of the functioning of the entire system, and not merely of some of its parts or even of some indicator.

Therefore also the mere change of several of the indicators, or perhaps the introduction of a few additional indicators that in themselves are in accord with the objective criterion of socioeconomic efficiency, will not necessarily lead to a change of the economic subjects' behavior. The system will not necessarily respond to this "adaptation" and may continue to be governed by the other, previous criteria built into it. Herein lies also the essence of the persistence of the phenomenon that is called the duality of the plan's indicators and of the indicators of efficiency. At best, both types of criteria will act in parallel within the system, mutually weakening and paralyzing each other. The resultant effect will depend on the relative strength or "weight" that the functioning of the system as a whole will assign to the two types of criteria.

The introduction of the Set of Measures and the 7th Five-Year Plan's tasks in the area of efficiency mark the start of a qualitative change in approach. In the course of further perfecting the planned management system, from the viewpoint of strengthening the orientation on efficiency it will be necessary in particular to interconnect more and more consistently all the aspects of efficiency and to complete the formation of the system of indicators so that they will constitute a new criterion for the microeconomic sphere's behavior, one that will be as consistent as possible with the objective criterion of socioeconomic efficiency.

Realization of this goal requires that the criteria of efficiency attain a new position within the economic mechanism: elimination of the duality of the plan and of efficiency must be completed, and the output-input ratios must become the basic criterion for the elaboration, adoption, evaluation and control of the plan at every level of management, and also for the formation of incentive funds and for the directions of their use. To fulfill this objective we must first of all complete the synthesis of the indices of social utility and cost-effectiveness, and must strengthen the real significance of the aggregate (synthetic) index of cost-effectiveness in consistently subordinating the partial indices to its desirable development within the economic mechanism. Simultaneously we must strive to create a more demanding economic environment, one based particularly on the consistent application on the basic khozraschet principle that the economic units' costs must be covered from their own incomes.

Functions of Efficiency Criteria

The weakening of the plan's obligatory nature and a substantial expansion of the enterprises' room for economic decisions are sometimes seen as the solution

to this problem. However, one-sided expansion of the enterprises' independence will not solve by itself the problem of efficiency, because it does not yet guarantee that these changes will lead to the creation of a consistent framework whose functioning will endogenously ensure the improvement of economic efficiency.

Development to date has been unsatisfactory not primarily because the degree of plan fulfillment has been the criterion of "successful" activity, but especially because the planned tasks have been based mainly on quantitative volume indicators, which have encouraged the maintenance of extensive development. Research and development, and an order-of-magnitude increase of efficiency have not been adequate parts of the plan. A situation has not arisen that would have made fulfillment of the tasks in the area of efficiency a basic condition for the fulfillment of the plan as a whole, and would have led to the efficiency criteria's derivation from the plan's quantitative volume tasks rather than conversely. A duality has existed of the plan's indicators and the indicators of efficency, and also of economic-policy strategies and the system of evaluating the economic activity of enterprises and economic production units.

Experience indicates that a basic turnaround in the dynamics of efficiency cannot be achieved merely by implementing methodological instructions or by applying khozraschet instruments in an isolated manner, but primarily through the concept and demanding nature of the plan itself. The mentioned duality of the plan and of efficiency in the past arose from a noncomprehensive and narrowly balanced approach to the plan: from underestimating the relationships between the utility value aspect (sometimes even interpreted as the physical volume aspect) and the value aspect of reproduction.

The setting and ensuring of the socially desirable dynamics of efficiency must be an essential part of the plan. Realization of the intensification strategy requires new approaches to the plan's concept and to its coordination with the economic mechanism as a whole. If we apply the strategy of the party's economic policy to this area, it means ensuring that appropriate, differentiated criteria of efficiency (in addition to the current tasks) become the initial planning indicators in all parts of the plan, in every stage of planning at the individual levels. Elaboration, setting, control and evaluation of the set of efficiency criteria must become the starting moment of the planning process. I wish to emphasize the word "starting," because there will be a change specifically in the concept of this moment.

Thus the increased plan-forming function of the efficiency criteria must not be viewed as the elaboration of a separate part of the plan or of a supplement to it. In the new conception of planning, analyses of efficiency and its aspired values must become the basic method of verifying the plan's concept and of elaborating its alternatives. The efficiency analyses should cover the entire triangle of efficiency criteria: cost-effectiveness, proportionality (equilibrium), and the technical and economic parameters of the individual alternatives. Efficiency analyses of the production structure and its physical content must include the definition and setting of goal-oriented programs and the priorities of the plan. Thus not the often-practiced opposite procedure should be followed, under which the goal-oriented programs are set first, and then indicators are sought to demonstrate their efficiency.

A systems approach to ensuring the objective efficiency criterion's requirements within the planned management system presupposes their projection into the system's other basic relations as well. Only in this way can we achieve closer harmony between the system and the strategic objectives set for it, and also the system's internal harmony. After triggering the plan-forming function of the efficiency criteria, it is necessary first of all to systematically reconcile them with the indicators for evaluating economic organizations, their chief executives and other officials. The inconsistency of these indicators with the efficiency criterion has been one of the decisive factors behind the unsatisfactory level and dynamics of the efficiency of the reproduction process. The system's further perfection lies in linking the decisive indicators of efficiency more closely with personal economic incentives and with the incentives of the economic production units and enterprises. The point is to assert more fully the merit principle in a demanding economic environment. Related to this is the tightening of wage regulations, and of the key indicator of adjusted value added; both must be brought more in line with the conditions of realization.

As khozraschet indicators of efficiency, also the indicators of profit and profitability must be analyzed in these interrelations. With its macroeconomic content, the category of profit can serve as a khozraschet indicator of how the efficiency of an enterprise's (or economic production unit's) operation is developing only to the extent that the profit is being earned by cutting costs or improving the quality, and in general by satisfying the needs of society. If the planned tasks are fulfilled in terms of volume, assortment and product quality, then the growth of profit expresses and stimulates economies through the more efficient use of labor and other productive resources. Profit due to such factors as price increases, substandard quality, fiddling with the assortment, etc., is of an entirely different nature. Here profit becomes an aim in itself, which is in conflict with the principles of the socialist economy and has adverse consequences. For these reasons, factor analysis of the formation of profit and of its increase should play a key role. The orientation on intensification should lead to the greater relative weight of such an intensive factor in the formation of profit as the reduction of production cost.

Value criteria should be the objective of management links only in combination with ensuring the structure of utility values in agreement with society's needs. The contradictions between utility value and value, and between social utility and cost-effectiveness, intensify in disequilibrium situations when prices passively follow the costs (often only the individual costs) and do not take adequately into consideration the degree of utility that the products offer their users. Local criteria can exert influence on the assortment in the direction of greater social utility, provided there is a price system such that its prices contain two social signals issued from the social value and utility value. The prices then depart from the costs in accordance with the utility characteristics of the goods and the extent to which the demand is supplied. Such differentiation of profitability and the influence it exerts on the assortment lead to the better supply of society's needs.

Within this concept, foreign prices play a role that is important but by no means exclusive. This concept of organic synthesis is in agreement with the requirements of the criterion of socioeconomic efficiency, and also with the

necessary linkage between the economic mechanism's indicators in value terms and physical units. With prices of this type, the difference between the requirements of cost-effectiveness and social utility narrows in the value indicators, and thereby the dichotomy of the two aspects of the objective criterion of efficiency, is gradually overcome.

But direct central management, which is of basic importance, is no substitute for efforts to perfect the price system. Therefore the proposals of Soviet economists to use the indicator of net profit as the characteristic of khozraschet results are strictly combined with the fulfillment of additional conditions: planned assortment, total output volume, limit on deliveries of raw and processed materials, and investments. As a further condition for the use of the increase of net profit, the volume of sales must be achieved parallel with meeting the obligations stemming from economic contracts. At the same time, the practice of economically effective fines and sanctions for contract violations is to spread.

Merely the consistent linkage of the efficiency criteria with the economic incentives does not exhaust the evaluation function of these criteria. Similar reserves lie also in the area of moral incentives, in the evaluation of managers, and in personnel work in general. Personnel work is an important way of asserting more consistently the interests of entire society in everyday economic activity and decision-making in the individual cells of the national economy. Experience indicates that quantitative aspects have constantly prevailed in these areas. Managers in a number of instances have been evaluated primarily on the basis of the production plan's fulfillment, with little attention to such questions as: At what cost was the result obtained? What savings were achieved? What innovations, efficient from the viewpoint of entire society, were introduced? And so on.

This has created a peculiar paradox: a contradiction between the general strategy of the party's economic policy, and everyday managing work. Elimination of this phenomenon as soon as possible is an important factor in mobilizing the reserves for the improvement of efficiency. Evaluation and control in the area of efficiency and intensification should become a primary direction in the activity of the superior economic and party organs. In the sense of the resolutions adopted at the latest sessions of the CPCZ Central Committee, strict conclusions must be drawn from the established shortcomings. This is where the situation begins to change under which some economic officials merely pay lip service to efficiency and innovations but base their practical actions on other considerations. As Comrade Milos Jakes, a member of the Presidium and a secretary of the CPCZ Central Committee, emphasized: "There is strong conservatism that manifests itself primarily in the continuing contradiction between 'mine' and 'ours.' In the mentality of a proportion of the workers and managers, this 'our' is neglected. This is a difficult political struggle, one that we must not only wage but step up as well." In other words, the policy of intensification requires the pronounced strengthening of the subjective factor's role, and his activization is an important part of economic policy under the new conditions.

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MINISTER VIEWS ELECTRONICS CONTRIBUTION TO ECONOMY

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[Article by Prof Eng Milan Kubat, ScD, minister of electrotechnical industry of the CSSR: "Contribution of Electrical Engineering to Economy"]

[Text] In my report to the 10th session of the CPCZ Central Committee I identified the main problems of the Ministry of Electrical Engineering and pointed out how we had dealt with them since 1980, when our branch and ministry were established, and how we intended to deal with them in the future.

Decisive Directions

From the very beginning of our ministry's operation we have focused on several decisive directions:

First, on the development of a modern component base for electronics, particularly on the development of microelectronic parts in cooperation with the USSR, GDR, the Polish People's Republic and other CEMA countries. Without components we would not be able to develop new directions of final, industrial and consumer electronics; we could not participate in international cooperation. Thus, we are fulfilling also one of the tasks of the 16th CPCZ Congress.

Second, on an intensive development of production technologies. We organized 3 top microelectronic facilities: in Piestany, in Roznov and in Prague. Furthermore, in several enterprises in the CSR and SSR we introduced a large number of the latest technologies, partly on the basis of license.

Third, on deliveries to our national economy. We are subcontractors for the engineering, metallurgical, power generating and mining industries, and final suppliers for communications, transportation, health services and many other branches, especially of communication and computer technology, automation, measurements and control, and of high-current electrical accessories. We are marshalling all our forces so as to discharge our task as suppliers and subcontractors honorably.

Fourth, on balancing the prices of our electronics with those of world electronics. For that reason, on three occasions we drastically cut the prices particularly of components as well as of finished electronics. We shall pursue this line further.

Fifth, on systematic improvement of the quality and reliability of our goods. In general, in 1983 the losses caused by rejects and claims in our branch have been reduced to 64 percent of the 1980 level. The costs for warranty TV repairs declined in 1983 to 47 percent of their 1980 level. Nevertheless, they still remain disproportionately high. We must intensify our efforts meeting our planned tasks; however, in our exports to the nonsocialist countries we were forced to completely reappraise our previous approaches and set up new concepts. We are cutting back on exports of general types of electric motors and power cables. We are focusing on more complex and sophisticated heavy-current products, on final units and on export of electronics. Here we must offset the effects of the world crisis and the saturation of the capitalist market with electronics. Such impediments notwithstanding, in 1983 for the first time we fulfilled also our export tasks to nonsocialist countries.

We realize that electronics must become a stimulant for the technological progress of our national economy. This brings the tasks of the 16th Cognress, outlined in detail by the 8th session of the CPCZ Central Committee for accelerated practical application of R&D achievements, so much more so to the fore in our ministry. We are applying the results of basic research of the CSAV [Czechoslovak Academy of Sciences], SAV [Slovak Academy of Sciences] and of institutes of higher learning. We concluded advantageous contracts of cooperation with the academies, the CVUT [Czech Institute of Technology] and other R&D organizations.

We are cutting drastically schedules for technical development by introducing short-term innovation tasks; we are reviewing schedules for the R&D plan. Thus, we are responding to justified criticism concerning extensive schedules for innovations in electronics expressed in the report of the presidium of the CPCZ Central Committee at its 10th session.

In our work the cadres in charge of technical training for the production we are consolidating the position and motivation of creative and managing designers, planners and technicians. We are proceeding with differentiation; we have set up progressive wage opportunities for those who continue to achieve excellent results. However, this line must be enforced in our enterprises with greater emphasis.

We are cooperating closely with the USSR and other socialist states in the areas of R&D, production and marketing on the basis of 37 multilateral and 51 bilateral agreements. Nevertheless, we are not satisfied with the number of agreements alone. We are trying to establish more flexible cooperation, joint solution of tasks, and joint workplaces and enterprises. We are enforcing these new forms for example in the area of unified systems of computer and communications technology, in the production of microelectronic circuitry and color televisions as well as in mass production of electric motors.

We do recognize our irreplaceable role in electronization of our entire national economy. For electronization we shall deliver unified parts, units, components,

subsystems and systems, appliances and equipment. Here we must maintain the technological standard, quality, reliability, service life and also appropriate price level. Such demands are many and this task is not an easy one. We approach it with full responsibility.

Together with the CSVTS [Czechoslovak Scientific and Technological Society] and other organizations we shall train 40.000 experts for application of electronics. We published detailed catalogues of components, sensors, units and partial systems, as well as other literature. Before the end of 1984 our microelectronic consultation centers will begin operation in Prague, Bratislava, Ostrava, Brno and Kosice. We shall organize additional consultation centers in provincial cities to srve planners from all branches using electronics.

We are following with great interest and understanding other branches of national economy which established their own facilities for the application of electronics. In electronization we see also the principal means to increase engineering exports and to expand their penetration in world markets. As confirmed, for example, by the recent aktion on textile machinery in Liberec, textile machienry can no longer be sold without electronics. By the same token, textile engineering clearly proves tht our component base may manufacture top quality electronic control systems for the most prominent engineering facilities.

The concept of our branch's development, approved by the CSSR Government and the Presidium of the CPCZ Central Committee, stipulates that in 1990 the volume of the goods produced by our ministry will be approximately double the 1983 production. The decisive way for us is the growth of labor productivity in which we must improve our standing in the world. We expect that in 1990 we shall increase our labor productivity to almost 190 percent of the productivity achieved in 1983. Nevertheless, we are not satisfied with the current level of our productivity and value added.

For that reason we have set for ourselves a program of modernization based on rapidly increasing production of single-purpose machienry and equipment which in 1990 will equal six times the current level. Single-purpose machinery and equipment for electronic technologies have becoem the target of the strictest U.S. embargo; they are being exchanged among the socialist countries as strategic materials and may be profitably exported to all territories. To fulfill this program, we must expand our own engineering capacities by about 10,000 to 12,000 workers before 1990. At present this tasks is being resolved not only by the construction of new electronic engineering facilities but also by transfers from the engineering ministries and by cooperation with them.

Internal Measures

Jointly with the enterprise-wide committee of the CPCZ, the FMEP [Federal Ministry of Electrical Engineering] outlined the main directions for specifications of the 10th session of the CPCZ Central Committee in the political and economic areas. We decided to render our ministry's plan for 1984 more progressive, to achieve highly dynamic production of goods, and to reach the plane set by the 16th Congress for the Seventh 5-Year Plan.

In 1984 our economic production units and organizations directly managed by the FMEP will increase their production of goods with guaranteed sales by 0.65 percent above the plan and their labor productivity from adjusted value added by 1.2 percent. The share of material costs in outputs here will decline 0.5 percent.

The 16th CPCZ Congress stipulated that our electrical engineering industry increase its production of goods by 50 percent in this 5-Year Plan. Despite the slowdown in the growth of production in 1981 and 1982 and lower material inputs, we envisage that in production we shall dramatically exceed the projection of the law for the Seventh 5-Year Plan. In this sense the volume of our production of goods will increase in 1984 by 10.1 percent over 1983, and in 1985 by about 11 percent against 1984.

In conjunction with the set of measures which the FMEP adopted to fulfill the decisions of the 8th session of the CPCZ Central Committee, very advanced tasks in utilization of engineering workplaces have been assigned to individual VHJ [economic production units]. On the average, this utilization will amount in 1984 to 77 percent. For 1985 we stipulated 82 percent average utilization of machine engineering workplaces by our organizations.

The weak point in our enterprises and factories is also the shift work ratio of workers in main operations. Therefore, specific tasks will be assigned to liquidate, reconstruct or modernize obsolete capital assets, to concentrate machinery in technological systems and to organize modern production systems. In 1980 total losses stemming from production rejects and from claims amounted in our ministry to 1.28 percent of the production of goods, and last year to 0.82 percent. For 1985 we set such losses at 0.7 percent. Consumer electronics area has lion's share of rejects and claims. We focus so much more effort on systematic attention to quality, so as to cut such losses in the Tesla Spotrebni Elektronika [Tesla Consumer Electronics] VHJ in Bratislava in 1985 to less than one third of the losses of 1980.

We are particularly concerned about the quality control system suitable for an appropriate line of goods, especially for electronic components of industrial quality and for special purposes. In 1980 products of superior technical and economic standards amounted to 4.92 percent of the volume of production and in 1983 already to 10.57 percent. For 1985 we set that task at 14 percent and at the same time, stipulated that this share be systematically increased.

Relative savings of selected items of ferrous metals, which in the past amounted from 3 to 4 percent, will increase to 4.6 percent in 1984. For 1985 we set the task to save 6 percent of such materials. We intend to raise relative annual savigns of nonferrous metals from 1.8 percent in 1980 to 3.5 percent in 1985. The available program for fuel and energy conservation projected biannual decreases of 3 percent. Actually, 3.4 percent relative savings were achieved in 1981 and as much as 4.1 percent in 1983. In view of the changes in the structure of the produciton we assigned differentiated tasks to individual VHJ for 1985 -- savings in the 3 to 4 percent range.

To Improve the Situation

Despite the 100-percent fulfillment of deliveries of allocated spare parts and the 118-percent fulfillment of unallocated spare parts in 1983, the organizations of the FMEP still owe certain items in the line of production -- for example, for locomotive repairs and for consumer electronics. A number of our components and units of previous generations are no longer manufactured, while the final products, for which they have been designated, have considerably exceeded their projected service life. We are seeking organizational forms and using personal material incentives to deal with such problems and to achieve speedier innovations of final products as well.

Better servicing is urgently needed particularly in computer technology. The Office Equipment and Datasystems will produce annually 20 percent of spare parts for repairs of computers made in the CSSR. In 1984 installed computer systems will be constructed with the required number of terminals of the delivered configuration and before the end of 1986 conditons will be provided to achieve the required peripheral facilities by means of production and international cooperation.

Concurrent operations in two units of the nuclear power plant Jaslovske Bohunice and in one unit in Dukovany are drawing off the capacities of assembly workers and technicians from other capital investment programs. Before 1985 the staff of the ZSE [West Slovakia Electrical Engineering Plants] and ZAVT VHJ must be expanded as soon as possible by 1,500 to 2,000 assembly workers, fitters and control technicians and other specialists. It is imperative to introduce and implement the decision of the Presidium of the CSSR Government on external assemblies and to discuss with consumer ministries the needs for deliveries of subassembly of investment units in 1985-1990.

Professional skills of the workers must be upgraded by systematic cadre work; 1,100 college graduates and 1,500 graduates of daytime study courses in high schools must be hired this year and in 1985. In 1985 we must meet 100 percent the recruitment of young apprentices in every region and fulfill the planned social investment -- especially the construction of the secondary vocational school in ZPA [Machinery and Automation Plants] in Kosire and the dormitory of the secondary vocation school of the OEZ syndicate in Letohrad.

As for capital investment, we must launch on 30 June 1984 a trial run in the complex of plants for color television screens in the Tesla syndicate in Roznov. Before the end of 1984 we shall complete on the deadline set by the government the construction of 12 buildings of the type of mandatory tasks stipulated by the state plan and other selected investments.

According to the report presented by the Presidium to the 10th session of the CPCZ Central Committee, capital investment in our ministry in the nest 5-Year Plan will amount to about Kcs 25 billion. In this conjunction we shall prepare a branch program for a rapid growth of the production of single-purpose machinery and equipment. Production facilities for this will be provided for

the manufacture of machinery and technological equipment in the Eighth 5-Year Plan; their value will be at least Kcs 7 to 7.5 billion, which will be nearly 5 times as much in 1990 as in 1985.

This involves also the transfer of engineering facilities from the FMVS [Federal Ministry of General Engineering] and cooperation of the enterprises of the FMVS and FMHTS [Federal Ministry of Metallurgy and Heavy Engineering] in the extent of Kcs 500 million annually, beginning in 1985. A 70 percent share of machinery and equipment in all investments will be achieved by modernization and rationalization. Capital appropriations will be used with preference for actual outputs in technological development.

Modernization and rationalization programs will be selected in individual VHJ's with a 70 to 80 percent share of machinery investments. Programs for more efficient production will be planned in appropriate enterprises on the basis of gradual modernization, with machinery and equipment amounting to at least 80 percent of investments.

Ministry's Contribution to National Economy

We envisage that by the end of the Seventh 5-Year Plan the share of exports of specialized goods in international division of labor will amount to 53 percent of total exports of our ministry. We shall conclude agreements with the partner ministries of the USSR on expanding and intensifying cooperation, specialization and collaboration up to 1990. Conditions for more advanced forms of cooperation in key areas are now being specified.

In 1985 exports to socialist countries will increase to about 160 percent of the 1980 volume and in 1990 to more than triple the 1980 volume. For that purpose we shall intensify, for example, international cooperation in computer technology and consumer and investment electronics. We shall gradually issue a list with specifications of current export commodities and identify goods whose technical standards must be improved to make them capable of competing in the markets of the socialist and nonsocialist countries.

The Federal Ministry of Electrotechnical Industry will vigorously participate in the statewide program of electronization of our national economy, including the goal-oriented program for Material and Technical Implementation of Electronization of National Economy. We shall complete the conception for the development of the production and advantageous deployment of industrial robots and manipulators in FMEP organizations; we shall manufacture robots for thermoelectric facilities and technological systems, components and control systems for manipulators and robots.

We shall expand the production and upgrade the quality and dependability of measuring and control technology for rationalization of fuel and energy consumption. We shall set priorities in the produciton of computer technology and intensify international cooperation in its research, production and deliveries. We shall prepare a program for improving the quality and reliability of computer systems.

By the above-mentioned main directions in the specification of the 10th session of the CPCZ Central Committee we in the FMEP responded to the decisions and main concepts of that session. In a public session of the CPCZ the managers of the control apparatus of the FMEP accepted them for further breakdown and implementation -- as an open document which will be broken down further according to the needs in the sense of the solutions outlined in the beginning of this article, particularly in creating conditions for the Eighth 5-Year Plan and in expanding our positions in world markets.

No other session of the CPCZ Central Committee has ever paid so much attention to electrotechnology, above all to electronics, microelectronics and electronization of national economy. We greatly appreciate the emphasis which the report of the Presidium accorded to the necessity of investment funding for the development of electrotechnical industry in the Eighth 5-Year Plan.

(That means about 9 to 10 percent of all investments in our industry, but this input will return shortly and with profit to our national economy.) As I have assured the CPCZ Central Committee in its 10th session, I should like also to promise to the readers of HOSPODARSKE NOVINY that our branch of electrotechnical industry with its 230,000 employees will do everything to fulfill its role as the vanguard of Czechoslovak engineering and as our economy's accelerating factor.

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PAST, FUTURE DEVELOPMENTS OF CHEMICAL INDUSTRY ANALYZED

Prague PLANOVANE HOSPODARSTVI in Czech No 6, 1984 pp 50-59

[Article by Eng Zdenek Pokorny, State Planning Commission: "Development of the Czechoslovak Chemical Industry"]

[Text] The conditions under which the concept of the Seventh 5-Year Plan for the development of the Czechoslovak chemical industry was drawn up were significantly different in comparison to preparation of past medium-term plans. They were marked by substantial quantitative changes in the relation of inputs and outputs. This involved primarily the following factors:

--diminished sources of crude oil, due to steep increases in world and contractual prices, affected the planned dynamism of production in the Seventh 5-Year Plan and caused an absolute decrease in the processing of this raw material (it increased by almost one-third in the Sixth 5-Year Plan);

--pressure on decreasing the demand for importing chemical raw materials (particularly from nonsocialist countries);

--pressure on lowering the demands made on energy by production in the requisite structure caused by diminished sources of some types of fuel and energy (heating oils);

--significant limitation of investment activities, particularly in the start-up of construction projects, but also increments in production from new fixed assets;

--the need for dealing with many ecological problems and structural changes in energy by allocating a considerable share of capital appropriations;

--a topical need for discontinuing operations in many production facilities from the viewpoint of their critical state, protection of the environment and lowering the demands on energy.

The rate of development of production in the Czechoslovak chemical industry in the Seventh 5-Year Plan was substantially lower than in the preceding 5-year periods:

	1980	1981	1982	1983 Plan	1983 Expected	1985 Seventh 5-Year Plan
Planning group* 170 + 180 gross production in billions of Kcs (in 1977 stable prices)	77.0	77.1	76.8	77.1	78.0	82.4
Basic index	100.0					127.75

The lower volume of crude oil processed in 1982 was reflected in an absolute decrease in production which caused, e.g., in 1983 a decrease in the originally envisioned increase in production by more than Kcs 4 billion in comparison to 1980. Nevertheless, consideration must be given to the fact that after subtracting production from the processing of crude oil into fuels, heating oils and asphalts the Czechoslovak chemical industry would show an increase in production for the last year of the 5-year plan in comparison to 1982 by approximately 11.5 percent (i.e., almost the rate of production increases in the woodworking industry, which is one of the most dynamically developing sectors).

The rate of production in the Czechoslovak pharmaceutical industry is to increase substantially:

	1980	1982	1983 Plan	1983 Expected	1985 Seventh 5-Year Plan
Planning group 190 gross production in billions of Kcs (1977 stable prices)	5.25	5.51	5.72	5.76	6.70
Basic index	100.00				107.00

A greater dynamic rate is expected primarily for the second half of the 5-year plan in Slovakia in connection with the start-up of several new production facilities.

The chemical industry's share in overall industrial production decreased in the Seventh 5-Year Plan for the first time in the postwar period. The faster rate of production increases in the pharmaceutical industry, even after inclusion in the chemical industry, would not appreciably affect the trend prevalent in this complex in view of the relatively small volume of health-oriented production. This development means a pronounced difference from the dynamic rate of development of this sector planned for the period

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*Planning groups (PS): 170--basic chemistry and crude oil processing; 180--rubber industry; 190--health-oriented production (primarily the pharmaceutical industry).

1981-1985 in most other CEMA member countries (1985/1980 index of production: USSR 130, GDR 133, Hungary 130, Romania 155, Bulgaria 137.5). The trend toward a faster rate of increase in the chemical industry in comparison to overall industrial production has also applied up to now to economically advanced nonsocialist countries.

The processing of smaller volumes of crude oil means a decrease in sources of petroleum products, specifically with the planned increase in the volume of chemical processing of crude fractions (that being their most effective means of utilization) from 10.3 percent in 1980 to 16.8 percent planned in 1985. From this follows a need to effect throughout the national economy maximum savings in the consumption of heating oils, fuels, lubricating oils and asphalts. A conspicous decrease is expected to occur in the CSSR in 1981-1985 in the consumption of petroleum products, specifically to the following extent:

Overall changes in consumption of petroleum products in percent

	1985 (Seventh 5-Year Plan) 1980	1983 Expected 1980
Diesel fuel	-15.0	-13.8
Gasoline		
--socialist organizations	-17.3	-14.5
--domestic consumer market	+9.7	+2.8
Light heating oil	-36.0	-21.9
Heavy heating oil	-18.8	-17.7
Asphalts	-34.9	-21.5

A differentiated approach is maintained in the planning of savings (e.g., relative preference being given to railroad and river transport and CSAD [Czechoslovak Automotive Transportation] transportation services over enterprised-owned transportation in gasoline, consumption of asphalts for the production of roofing and insulation materials over other direct consumption in construction and by regional national committees, etc.).

In connection with the long-term program for decreasing the share of crude oil in primary sources of the fuel and energy balance, it was envisioned to start in the Seventh 5-Year Plan the construction of a cracking unit that would transform heavy crude oil fraction into the so-called light products that find application in subsequent processing into fuels and as a raw material for further chemical processing. The prerequisite for this is to provide input raw materials for cracking units by eliminating heating oils from energy consumption. However, for the time being this intent is not progressing as envisioned.

The following development of material production in the chemical industry is envisioned for selected groups of products; for comparison with actual implementation I present in the outline the expected actual state for 1983:

	1980	1983 expected	1985 Seventh 5-Year Plan	1985 Seventh 5-Year Plan 1980
Plastics and synthetic resins, total (in 1,000 tons)	919.2	1010.3	1023.2	111.3
--of which basic thermoplastics (1000 t)	583.4	634.0	641.0	109.9
Chemical fibers, incl. cord silk (1000 t)	163.6	172.9	182.9	111.7
Industrial fertilizers incl. urea in CSSR & SSR Min. of Building (1000 t pn)	1362.9	1264.2	1313.6	96.4
--of which: nitric (1000 t N)	762.9	738.2	731.6	95.9
phosphoric (1000 t P_2O_5)	361.0	322.0	369.0	102.2
potassium (1000 t K_2O)	203.0	204.0	213.0	104.9
Passenger car tires (1000 pcs)	3124	2806	3170	101.5
Truck tires (1000 pcs)	1846	1655	1740	94.3
Tractor rear tires (1000 pcs)	270	240	227	81.5

Deliveries of industrial fertilizers will be provided to an ever increasing degree from imports as they are more effective; nitric fertilizers are demanding on energy and the domestic production of phosphoric fertilizers is ineffective. The increment in nitric fertilizers is provided through imports from the USSR as part of an intergovernmental agreement on specialized production of energy-intensive products. The plan envisions the following deliveries of industrial fertilizers for agriculture:

	1980	1983 expected	1985 Seventh 5-Year Plan
Total deliveries in 1000 t pure nutrient of which: domestic	1761.1	1750.1	1765.0
	1117.2	1020.4	1054.7
total imports	617.8	717.8	710.3
of which nonsocialist countries	61.9	146.5	115.0
Pure nutrients per 1 hectare of agric. land	257.1	255.5	259.3

The proposed plan for the production and utilization of rubber products is based on measures for economizing in the area of fuels, retreading and the relatively high demands of production on foreign exchange for the importation of raw rubber and other raw materials.

Another factor limiting the development of the chemical industry evolves from the overall lower rate of development of the national economy, lower generation of resources for accumulation and the overall situation in

capital construction. A substantially narrower leeway is provided for the implementation of developmental intents in this sector from the second half of the Sixth 5-Year Plan. This is reflected in investment inputs:

	Seventh 5-Year Plan / Sixth 5-Year Plan Actual
Total volume of services and deliveries for capital construction (millions of Kcs in 1981 prices)	
--industry	101.9
--chemical industry (PS 170 + 180)	76.9
Total limit on budgeted expenses for construction start-ups (millions of Kcs in 1981 prices)	
--industry total	66.5
--chemical industry (PS 170 + 180)	51.4

Foreign exchange resources for the procurement of machinery and equipment from nonsocialist countries represent in the Seventh 5-Year Plan 44 percent of the volume procured in the preceding 5-year period. A different development is envisioned for capital construction in the area of health-oriented production--in millions of Kcs (PS 190):

	Sixth 5-Year Plan (1977 prices)	Seventh 5-Year Plan (1982 prices)
Total volume of services and deliveries	1.66	2.73
Limit on total budgeted expenses for construction start-ups	1.07	2.11

Even though the share of ecological investments in total budgeted expenses for newly started construction projects in the chemical industry is considerable (9.7 percent for construction projects with budgeted expenses in excess of Kcs million, including 4.7 in the CSR and 19.2 in the SSR). It does not make it possible to deal with many justified requirements.

The share of Czechoslovak chemical engineering in the development of the domestic chemical industry also shows another decrease in the Seventh 5-Year Plan. Thus, e.g., the key VHJ [economic production unit]--Chepos--is orienting its production primarily on exports to the USSR and other countries in a structure differing from the needs of the intended developmental objectives of Czechoslovak chemistry; from goods production of this VHJ the following percentages in wholesale prices are destined for:

exports to socialist countries	48	investments	15.2
nonsocialist countries	11.1	of which: for CSSR chemical industry	3.5
		other marketing	25.7

The share of participation of Czechoslovak R&D in documentation for production facilities of the chemical industry is increasing in comparison with the Sixth 5-Year Plan:

	Sixth 5-Year Plan	Seventh 5-Year Plan
Share of constr. projects based on own R&D (in percent)	29	62
Share of constr. projects based on licenses and on reproductible construction projects	71	38

This positive trend is also related to a certain extent to structural changes in the orientation of capital construction (increasing share of construction projects in the area of chemical specialization at the expense of the share of construction projects in the petrochemical complex).

The high demands of Czechoslovak chemical industry (PS 170 + 180) on energy are characterized, e.g., by data for 1982:

Consumption:

Bituminous coal	108,000 t	Heavy heating oil	1,338,000 t
Lignite	7,143,000 t	Electric energy	3356 mil. kWh
Coke	98,000 t	Primary energy	198.6 mil. GJ
Natural gas	1140 mil. m^3	Heat	30.1 mil. GJ
of that for chem. process.	855 mil. m^3	Electric power	17.0 mil. GJ
City gas	105 mil. m^3	Total energy consump.	245.7 mil. GJ
Light heating oil	58,000 t		

For that reason the state goal-oriented program No 02, "Promoting Economy in Consumption and Utilization of Energy," which is an obligatory part of the plan for the Seventh 5-Year Plan, specifies measures and changes in the structure of the consumption of fuels and energy for the chemical industry sector as well. Its implementation still shows many untapped resources. The objective is a gradual change in the structure of the Czechoslovak chemical industry toward lower demands on energy (e.g., discontinuing carbide production in Sokolov, elimination of soda lye stiffening and meeting of Czechoslovak needs by importation from socialist countries, etc.).

In 1980 an important intergovernmental agreement was signed between the CSSR and USSR regarding long-term specialization and cooperation in the production of energy-intensive products. In accordance with it, the USSR will start in the first stage planned development of productions that yield such products as nitric fertilizers, methanol, synthetic rubber, to provide coverage of needs of the CSSR which, on the other hand, will specialize in admixtures to polymers, pure chemicals, organic dyes, coating substances, i.e., products with a relatively high price per kilogram. Through implementation of the planned volumes of mutual deliveries, the

CSSR will seve in 1981-1985 alone over 500,000 tons of standard fuel. The comprehensive energy demand* of mutual deliveries of balanced value in the Seventh 5-Year Plan represents 700,000 tons of standard fuel in imports from the Soviet Union and 138,600 tons of standard fuel in Czechoslovak exports.

It is envisioned to extend this agreement after 1985 to other products. The sectoral structure of Czechoslovak exports is conducive to higher participation of research in the generation of national income. The long-term validity of the agreement (till 1995) and large volumes of Czechoslovak exports make it possible to build new production capacities of optimum size given by the extent of the Soviet market. This creates conditions for exparding the international division of labor that are favorable for the CSSR, particularly from the viewpoint of the optimal structure of chemical industry production.

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* Comprehensive nominal energy demand Ec is derived from En;
En = indicator of nominal consumption of all energy entering the production process as raw material and in the form of energies themselves related to a unit of weight calculable through chain computation from initial raw materials to the final product;
Ec = indicator of nominal consumption of energy related to value (ruoles); itis relevant to an assessment of specialization from the viewpoint of relative energy savings, e.g.:

	En (tons of st. fuel/t)	Ec (tons of st. fuel/R 1,000)	
polybutadiene rubber	5.14	12.45	imports from USSR
optical whitening agents	8.18	1.26	exports from CSSR

The 5-year plan envisions the following development of the sectoral active or passive surplus of the Czechoslovak chemical industry in relation to nonsocialist countries, the implementation of which has proved successful so far (in millions of Kcs in prices quoted as "all charges paid"):

	1981	1982	1983	1985
PS 170 + 180:				
Plan	-280	-739	-921	-218
Actual	+411	+1407	+2472[1]	
PS 190:				
Plan	-590	-454	-494	-426
Actual	-597	-466	-571[2]	

[1] Expected actual state
[2] Expected actual state including relation to PRC

Meeting planned objectives is better in groups 170 + 180 as the result of lowering the demands on imports and greater exports of crude oil and petrochemical products. On the other hand, the pharmaceutical industry was not able to meet its quotas for exports to nonsocialist countries. The surplus in terms of commodities for imports and exports of chemical products (even without crude oil) for the entire national economy shows an entirely different proportion and has been permanently passive in relation to both socialist and nonsocialist countries.

Imports from nonsocialist countries include some raw material items supplied from developing countries (natural rubber, raw phosphates); however, a considerable share is taken up by specialized chemical products imported from economically advanced countries.

In keeping with the intentions of the 16th CPCZ Congress, the development of the chemical industry in the Seventh 5-Year Plan will even in the future be oriented in essence toward improved utilization of raw material and energy sources, specifically by expanding chemical production demanding on engineering and technology with a high share of skilled labor. A reflection of this orientation is the state goal-oriented program No 12, "Selected Chemical Products," which includes the key directions for development of chemical specialization in the current 5-year period and after 1985. Its results should become manifested primarily after 1985 and should consolidate and emphasize the position of the CSSR in CEMA in selected branches of chemistry and pharmaceutical production and improve foreign exchange relations with nonsocialist countries. Priority is given to the development of branches that have their own R&D base and show little dependence on imports from nonsocialist countries. Program No 12 is oriented primarily toward the following products: pure chemicals, organic dyes, admixtures to polymers, selected types of polymers and basic organic substances, additives to fuels and lubricants, medicaments and biofactors.

Priority development of production of specialized chemical products will be benefically reflected in the area of structural changes in the Czechoslovak chemical industry. The assortment of those products meets all or most of the following conditions:

--a high degree of technological processing of initial raw material;
--a high share of costs for research in relation to the value of production;
--a wide assortment of raw materials entering the production process;
--a wide assortment of products;
--relatively high per kilogram prices of products;
--relatively low indicator of Ec--nominal consumption of energy related to rubles or some other unit of value (in tons of standard fuel/1,000 rubles);
--high frequency of innovation cycles;
--relatively small number of producers and keen competition on the world market from the viewpoint of utilitarian properties and price relations;
--high demands on technical service.

Prerequisites for the Development of the Czechoslovak Chemical Industry After 1985

1. Chemization of the National Economy

In its current concept this process requires a permanent time lead in the consumption of chemical products over production dynamism in other sectors generating national income. Such a time lead is a reflection of the application of findings in chemical science to the development of production forces, and thus also of technical progress in sectors which consume and produce chemical products. Chemicalization of individual branches of the national economy is a technical and economic prerequisite for increasing the generation of national income.

Worldwide development over the past 30 years has proved the validity of this thesis. Nevertheless, this relation has not been progressing as unequivocally since the so-called first oil crisis in 1974 as it did before. This then makes it necessary to reassess its development and effects in a prognosis for the continued development of the national economy, and to take into consideration a number of relations, such as:

--The roughly tenfold increase in the price of crude oil over the past 10 years, high cost of energies of which the chemical industry is a considerable consumer, increases in social costs of production of many chemical products, so that the formerly routine substitution of other materials by chemicals does not offer the advantage it once did; in the case of these chemical products there is a need for planned promotion of their absolute as well as relative savings within the economy as a whole (heating oils, asphalts, nitric fertilizers);

--In the consumption of many chemical products there is occuring a state of quantitative saturation, and continued extensive growth in their consumption does not produce effects as beneficial as they were up to the

mid-1970's (industrial fertilizers, chemical fibers, basic types of plastics);

--Continued extensive growth of consumption and, thus,also of production of some mass-produced chemical products is encountering with increasing frequency specific limitations, among which ever increasing significance accrues to stricter criteria for environmental protection (e.g., the effects of nitric fertilizers in agriculture on the quality of subterranean reserves of potable water);

--Increasing importance is being acquired by chemical materials that have the nature of instruments of labor indispensable to related sectors for turning out final products, but where the substance of the final product is not constituted by the chemical substance--involving the function of the so-called auxiliary preparation; this involves in most cases specialized chemical products (e.g., biologically effective substances used in animal production, additives preventing the aging of rubber, etc.).

2. Factors Limiting the Development of the Czechoslovak Chemical Industry After 1985 and Ways To Overcome Them

It is expected that certain structural changes will occur within chemical industry sectors--e.g., the dynamism of petrochemistry will slow down (the situation is different in developing countries that extract crude oil), the rate of development of pharmaceuticals and biologically active chemical products will continue to outpace the dynamism of the sector as a whole.

As regards Europe's chemical industry in the 1980's, it is aptly described by the final report of the 15th Plenum of the EEC-UN Chemical Committee of October 1982, according to which the 1960's were a decade of chemicalization, the 1970's a decade of maturing and saturation and the 1980's a time of raw materials and energy.

In pointing out the direction for continued development of the chemical industry is the CSSR in long-term outlook, it will be necessary to:

a) lower the demands of production on raw materials and energy;

b) actively engage the R&D base in qualitative innovation of the structure of production,

c) eliminate or alleviate detrimental effects of production on the environment,

d) increase the share of Czechoslovak mechanical engineering in the implementation of developments in the Czechoslovak chemical and pharmaceutical industries.

As regards manpower, in view of the relatively high degree of labor productivity it is not considered to be typical for this sector, nor does the expected demographic development in the CSSR constitute a factor

potentially limiting the development of the Czechoslovak chemical industry.

Sub a) Lowering the Demands of Production on Raw Materials and Energy

The Czechoslovak chemical industry currently shows an approximately 30-percent share (in GJ) in consumption of the overall volume of fuels and energy entering the entire CSSR economic complex (of which, in the case of crude oil and asphalt its share of processing is 100 percent; a significant share also accrues to natural gas and lignite). On the other hand, it turns out an extensive assortment of high-grade fuels (primarily propellants and heating oils on crude oil), so that from the energy viewpoint approximately two-thirds of its production goes to fuels for other branches and spheres of the national economy, and only one-third of its energy output goes to products consumed outside of the chemical indsutry (primarily nitric fertilizers, plastics, synthetic fibers, rubber products).

Minimization of the demand on energy is, from the viewpoint of long-term effectiveness, an essential, even top priority prerequisite.

The structure of continued development of the chemical industry in our country must be adapted to the fact that the overall available sources of energy will essentially stagnate. The processing of crude oil in the CSSR is characterized by its high share of production of heating oils intended for power engineering purposes. In most industrially advanced countries that process imported crude oil, a trend toward limiting consumption of crude oil for these purposes and increasing the share of production of propellants and petrochemicals has long been evident. This fact is illustrated by the following outline of the structure of the share of key products from crude oil processing (in percent):

	Industrially advanced nonsocialist countries(1977)	CSSR(1980)
Gasolines	23	16
Diesel fuel	35	28
Heating oils	28	44
Other	14	12

The elimination of this difference presupposes:

--the gradual release of heating oils from energy consumption,

--in connection with obtaining the mentioned sources, transforming them in cracking units into ligher fractions for the production of fuels and for chemical processing.

Regardless of price increases, crude oil must be viewed in the long-term as the basic source of carbon for chemical processing. It is obvious that even with continued limitations on the overall importation of crude oil, these smaller resources still would suffice--in comparison with the present state--as a raw material for the higher production of carbonaceous chemical products.

In the second half of the 1980's there will be a need for systematic implementation of a savings program which will involve not only the actual relative or absolute savings of crude oil products but, at the same time, structural changes in the fuel base (limitation of heavy heating oils). In the chemical industry it will further involve:

--stopping or conspicuously curbing productions that are extraordinarily demanding on energy together with an orientation toward importing the requisite chemical products from the USSR and other socialist countries;

--implementing changes in the structure of the Czechoslovak chemical industry's production that would expand the production of specialized chemicals at the expense of products turned out by so-called heavy chemistry;

--changing or adapting technology toward a higher utilization of waste heat and reduction of demands on energy;

--improving the utilization of secondary raw materials;

--carrying out in selected localities a transition to distribution of heat from centralized sources;

--redesigning existing fuel systems;

--promoting economy in intraplant energy management.

Sub b) Active Participation of R&D Base in Qualitative Innovation of the Structure of Production

While in the 1970's there prevailed a type of scientific and technological development that led to increasing productivity of direct labor input but that at the same time caused increases in the consumption of investments, energy and materials, it is now inevitable to promote a type of development that saves energy and promotes maximum utilization.

While in the past 10 to 15 years the major portion of key machinery and systems for building up the Czechoslovak chemical industry was imported from non-socialist countries (not only due to a different orientation of domestic chemical engineering, but also because it was procured simultaneously with the relevant chemicotechnological processes), today's orientation toward specialized chemical production does not permit such an approach. There is a need for finding and introducing into production products that can be turned out by only a few enterprises worldwide and that due to their quality and utilitarian value are in such demand that even foreign customers are willing to pay a high price for them. The point is to start producing them as soon as possible and in a considerable extent not only for the domestic market and CEMA countries, but also to meet the needs of customers in nonsocialist countries.

In the Czechoslovak economy it is impossible to achieve key changes in the planned "relieving" of the structure of production (i.e., lowering demands on energy, raw materials and funds) without the centralized establishment and development of large focal points of innovation. At the same time, however, in view of certain limitations constituted by the small size of our country and its resources, and also in view of other specific obstacles, such strategic focal points for innovation must be established with great moderation, in a strictly limited number of developmental sectors permitting the requisite concentration of resources and fast implementation of the set objectives. Achieving the desired changes and turnover in the application of science as the key factor of intensification calls primarily for:

--developing economic pressure that would make the attainment of the planned tasks contingent on the expedient resolution and implementation of objectives in the R&D sector;

--deciding on the implementation of each R&D task on the basis of envisioned effectiveness and assessment of the expected net production in world prices (best predicted) and in relation to total costs for research, investment and foreign exchange resources and the need for energy; changes promoting effectiveness must be updated even in the course of carrying out the project with simultaneous revision of the expected economic result and its allocation--herein the economic effectiveness of the future producer must not be confused with the effectiveness that is to be achieved by the consumer of the new product;

--assuring comprehensiveness through perfect interlinkage with other parts of the plan (plans of capital construction, production, the fiscal and pricing part of the plan, etc.); making use of goal-oriented programmed approach for coordinated collaboration of the individual subjects;

--reassessing the structure of the existing research base in chemistry in order to reinforce those branches and sectors in which the greatest contribution to the national economy under future conditions can be envisioned;

--bringing about conspicuous improvements in the coordination of the chemicotechnological process with mechanical engineering;

--increasing in the area of application of research findings the share of Czechoslovak maching building in the development of the domestic chemical industry and simplifying the preparatory and decisionmaking process in capital construction.

Sub c) Environmental Protection

A prerequisite for the continued development of the chemical industry is the expedient resolution of harmful ecological effects. The upcoming period will see qualitatively stricter demands placed on production processes and products of the chemical industry. This involves an important developmental

trend, which in many cases will lead to a new quality of chemical production. Legal provisions will have an ever-increasing impact on chemical products sold on the world market.

This will call for the gradual resolution of ecological programs at various levels of management which would clearly delineate the individual objectives, the expected results, their chronological urgency, costs of implementation, priorities from the viewpoint of individual proponents and their financing.

Ecological programs should include parts devoted to individual areas of the given set of problems (improved cleanliness of stream water, of the atmosphere, liquidation of solid wastes, recycling of secondary raw materials, elimination of hygienically defective processes). An important part in their compilation should be played primarily by national planning organs.

Significance of External Factors to the Structural Formation of the CSSR Chemical Industry

Significant changes can be expected to occur in the territorial distribution of the world's chemical industry till the year 2000. At the present time 80 percent is situated in Western Europe, the United States and CEMA member countries; 10 percent of the world's production is turned out by Japan. The position of the chemical industry of CEMA member countries, primarily in the Soviet Union, can be expected to become reinforced. In the same period the share of Western Europe's chemical industry--which is now about 30 percent of the world's chemical production--will keep decreasing. New important centers of the world's chemical industry will undoubtedly spring up over the next 20 years--primarily in the Middle East, in Latin America and in southwestern Asia. It is estimated that Middle Eastern countries will turn out in 1985 approximately 2.3 million tons of ethylene on an annual basis, more than half of it by Saudi Arabia. (To provide an informative illustration, it can be pointed out that the total consumption of ethylene in the FRG was 2.8 million tons in 1976.) These new chemical industry centers will utilize local raw materials and cheaper manpower; this will enable them to compete primarily with production that is demanding on raw materials and energy, such as e.g., standard polymers. It is not expected that these new centers will produce specialized chemical products based on the findings of their own research. The territorial development of the world's chemical industry will change the state of the international division of labor in the upcoming decades.

Economic cooperation with the Soviet Union is of decisive importance to the formation of the structure of the Czechoslovak chemical industry. Despite the dynamic development of trade relations between the CSSR and USSR in chemical products (threefold increase in turnover between 1970-1980), the share of chemistry in the total foreign trade between the two countries decreased in this period (from 5 to 4 percent), whereby the surplus is passive for the CSSR. From the viewpoint of present and prospective

economic conditions the structural profile of this trade is of advantage to CSSR chemistry, as deliveries from the USSR include primarily basic chemical raw materials and semifinished products (not including crude oil), which for the most part are compensated for by products included among the so-called chemical specialties. Among other things, this also translates into a positive energy surplus to the CSSR's benefit. It can be envisioned that the key dynamism-promoting element in the mutual exchange of specialized chemical products will be the second and third stage of the intergovernmental bilateral agreement regarding deliveries of energy-intensive products for products less demanding on energy. The long-term nature of these mutual relations stems from the validity of the agreement until 1995. The outlined division of labor will make it possible for us to build unique large-capacity units for the production of chemical specialities for a market which absorbs 10 to 20 times more of the products mentioned than does the CSSR.

Continued promotion of deeper effective specialization and cooperation with other CEMA member countries will also share in forming the long-term structure of the Czechoslovak chemical industry.

From what has been said it follows that limiting factors do not represent any absolute and unscalable barriers to the continued development of the CSSR's chemical industry. Their effects can be weakened by an effective economic policy concept, optimization of the structure of the production assortment and more intensive participation in the international division of labor.

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INVESTMENT POLICY FOR REMAINDER OF 1980'S OUTLINED

Budapest IPARGAZDASAG in Hungarian Jul 84 pp 1-5

[Article by Dr Bela Csendes of the National Planning Office: "Investment Policy in the Second Half of the Decade of 80's"]

[Text] Development of the Seventh 5-Year National Economic Plan is in progress. Based on the resolution of the MSZMP's [Hungarian Socialist Workers' Party] Central Committee the work aimed at complex further development of the economic management system has also accelerated. Under these circumstances it is also extremely timely and of vital importance to clarify theoretically the main investment policy questions. At the same time this may also serve as foundation for developing a concept for a comparably longer period of time. This concept will necessarily differ significantly from the earlier investment policy concepts and especially from today's investment practice.

Investment Policy Should Be Better Integrated Into the Economic Policy as a Whole!

Improving the investment activity requires improvement of the entire economic operation. The system of means of the economic policy's goals points beyond the narrowly interpreted investment policy and development regulation; it places significant tasks on the price system, income regulation and the organizational system and can be further developed successfully only in harmony with these. The proper harmony with the work aimed at the complex further development of the economic management system is especially important.

The economic policy's basic task--well known--in the coming years also is to re-establish the balance, and to [illegible]n such a way that besides solving the short term problems the requi[illegible]f perspective development should also vigorously prevail.

From the investment policy viewpoint the attention must be focused primarily on this latter requirement. The recognition is increasingly spreading that significant changes had and have to be made on the investment policy's goals and tools. The main characteristic of this is that the investment activity must be better integrated into the economic policy as a whole. A complex and significantly more selective investment policy is needed than before

which encourages the innovation process, in planning for the national economy as well as in the economic operation of the enterprises.

--The "Price" of the Foreign Trade Balance Was Reduction of the Investment Volume

As it is well known, in the last 3 years the decrease of investment volume further continued. In recent years the investment volume had to be decreased to an extent unparalleled during the previous decade: the 6-percent decrease of 1981 was followed by 3-percent decrease in 1982 and 6-percent decrease in 1983. In these 3 years in the socialist sector we spent 6-percent less on investments than expected by the medium-range plan.

The outside circumstances deteriorated more vigorously than had been expected. The level of domestic economic operation improved modestly. These conditions made it necessary that in the interest of ensuring the foreign trade balance--while also paying attention to the efforts concerned with maintaining the population's standard of living--the investment expenditures and the rate of accumulation should be significantly decreased.

--Increasing Flexibility, Complex Programs, Changing Financing

We wanted to accomplish decreasing the investment volume through practicing a selective investment policy. We succeeded in achieving initial results in this. The national economic planning and management adjusted to the changing conditions more flexibly and faster than before. This also contributed to being able to avoid the development of a new investment peak.

In the production sphere emphasis was placed on the inter-branch goals serving to increase the economy's efficiency, such as, for example, rationalization of energy consumption, frugality with materials, spreading the modern technologies, as well as utilization of byproducts and wastes. It characterizes the concrete programs which serve these that they cover not only the investment questions but endeavor to address the regeneration program in a comprehensive manner.

In financing the enterprises increasingly felt the burdens of capital investment by expanding the requirement of sharing in the raising of capital, more flexible loan and interest policies than before, and reduction of the state subsidies. It is also a positive aspect that the opportunities for flow of capital between the enterprises have increased.

The ratio of investments made by the enterprises increased compared to what was projected, both in the Fifth 5-Year Plan's time period and in the Sixth 5-Year Plan.

In recent years we reviewed the earlier ideas concerning the major investments. Only 6 major investments began between 1981-1984. As a result of this, while in 1980 the implementation of 22 major investments were in progress, there were only 13 of them in 1984.

The role of resources owned by the enterprises and by the population increased in the implementation of goal-oriented investments.

The composition of resources for investments was modified. Compared to the previous plan period the ratio of budgetary allotments and loans by the state together has decreased by 10 percentage points, and the enterprise and council-managed resources constitute nearly one-half of the total payments for investment.

How Can the Investment Process Be Evaluated?

In spite of the things listed here we cannot be satisfied with the results. The efficiency of the investment process is improving less than necessary and possible. In connection with this it is necessary to emphasize the following:

--In recent years there was no proper harmony between the investment process and investment opportunity. The number and volume of investment projects begun in 1981 and 1982 increased. A certain moderation can be seen since the second half of 1982--to a significant extent due to the effect of central measures. But even today the implementation of more investment projects is under way than would be in harmony with the financial and technical opportunities--and within this primarily with the machinery imported from capitalist countries. Therefore the inventory of investments in progress has increased and the unfinished inventory even surpasses the size of the yearly payments.

--Because uneconomical activities continue, repeatedly the investment opportunities of enterprises and cooperatives capable of dynamic growth had to be decreased.

--As it is well known, the financial resources of the enterprises made investment expenditures far exceeding the plan possible. Therefore we were forced during the year to take measures to moderate the resources and limit their utilization. These measures generally had an equalizing effect, and made the burdens of obtaining equipment too expensive. The enterprises passed on a significant portion of the costs and thus inflation became stronger. The frequent changes hindered the longer term foresight of the enterprises and also disrupted the planned character of their development activity.

--The energy management developments tie down significant resources. Partly because of this and partly because within the processing industry the requirement of selective development is not sufficiently implemented, transformation of the production structure and improvement of competitiveness are only slowly developing. Consequently the available investment resources serve long term growth much less than would be possible.

--Technological development and the investment activity continue to break away from each other, the modernizing-type investment activity is only slowly becoming recognized. Sales difficulties as well as bottlenecks hinder good utilization of modern equipment.

--Among our investments there are still many high cost developments which carry significant risks. A significant portion of the loans and subsidies are also assigned to the implementation of high cost developments. The credit and loan repayment obligations are concentrated at the major enterprises which is coupled with the lower profitability of these enterprises. All this has led to the enterprises becoming debt-ridden, rescheduling of the repayment obligations and increased lifespan of the loans.

--Completion time for the investments continues to be long, the average time being 4 years. The long completion time decreases competitiveness.

A significant portion of these problems is not new at all, neither is the consequence of decreased investment volume. But in the economy's present situation it is increasingly important not to delay solving them.

More Vigorous Selectivity Key to Modernization

In the coming years significantly decreasing the volume of investments and the ratio of accumulation is not a feasible path to follow. This would also endanger the maintenance of the technological level and the possibility of longer-range development. But in the coming years the opportunity will hardly be there for spectacular growth of the investment volume. We must modernize the equipment inventory's structure by strengthening the selectivity of the investment activity. At the same time it would be expeditious to spend the majority of the additional income created in this manner on faster developing the competitive activities, and in the interest of long-term protection of the standard of living.

--Focus on Strengthening the Income Producing Ability

The basic goal of the development policy of coming years is to increase the income producing ability. This justifies primarily the quicker transformation of the mezzo- and micro-structures. Thus instead of the high cost and high risk developments the focal point of the investment policy shifts over to the medium- and smaller sized modernizing investments; instead of frequent application of the direct tools of management by the state, onto investments by the enterprises which react flexibly to changes in the market conditions. In the production branches the basic task is to modernize the technologies, to rejuvenate the product groups and products.

General development of individual branches as a whole cannot be the goal in the coming years (or only as an exception). Instead of this it will be necessary to force structural changes within the branches--adjusting to the market demands. In the interest of this increased emphasis must be placed on the national economic as well as on the enterprise level on accelerating the technological development process, increasing efficiency and creating closer harmony between the development and investment activities.

Entrepreneurial-type investment initiatives by the enterprises which react flexibly to the market's direct effects must prevail to a greater extent than today.

Focal Point Generation in the Production Sector

The narrow investment priorites of the production sphere can be primarily inter-branch investments which can develop basically within the framework of the market circumstances and the regulatory system. The state provides subsidies primarily where the price and cost conditions prove the efficiency of the given development ideas.

Concentrated efforts must be made during the time period of the Seventh 5-Year Plan in the interest of basic improvements in the processing industry and food production competitiveness, modernness, profitability and structural conforming ability. Here especially the requirement of selective development must be emphasized which pays attention to the expected market conditions. This on the one hand means that even within the processing industry the growth of those production areas is desirable which through minor supplementary investments, additions and reconstructions will result in products which can be sold profitably, or expand the quantities of these. On the other hand in the entire economy and thus also within the processing industry we must implement with especially great consistency the discontinuation of uneconomical activities.

--Growth Must Be Concentrated on Competitive Areas!

Thus, such economic organizing and investment activity by the state, resulting in complex development, is needed which serves the technological development of areas which prove to be competitive. This is where we must locate the development of the support industries for competitive activities, the investment ideas which serve to moderate the shortcomings of the support industry.

By developing international cooperation and collaboration we can profitably replace a portion of the unjustifiably high capitalist spare parts and subassembly import. The above goals must be reached generally through investments involving relatively low capital investments. We must base this to a greater extent than before on the small and medium-sized plants, small enterprises and the contribution of private artisans, and we must and can expect also the supplementary industrial activity of the agricultural operations. This can produce results even over the short range, improve the efficiency of capital and save investments.

Besides rational concentration of the domestic intellectual and material resources, exploiting to the maximum extent the opportunities of international cooperation it is justified to develop the electrotechnology, computer technology, robot technology and biotechnology. But we cannot expect that developing all of these activities can be a realistic alternative for the Hungarian economy, therefore we must find those partial activities which suit the material and intellectual conditions of the Hungarian economy, which can make it possible to close ranks with the leaders of the world in certain, narrower areas.

Rational moderation of specific material and energy consumption continue to remain emphasized tasks. By rationalizing the material and energy consumption

on the one hand the production costs of the products can be decreased, thus competitiveness can improve; on the other hand this can also moderate the need to increase energy and raw material production.

In food production a development policy must be conducted which is in harmony with the demands expected to increase within the framework of the CEMA cooperation as well as with the capitalist export requirements, paying particular attention to the developments related to preservation and improvement of the soil's producing ability and to the grain program, including also improvement of the transportation and warehousing conditions. First of all increasing the degree of processing and decreasing the expenditures and waste can and must be promoted through a series of smaller volume developments.

Presumably there will be no opportunity in the second half of the 1980s to significantly increase the ratio of investments in the production infrastructure. The investment policy must be aimed at dissolving the bottlenecks and preventing further deterioration of the level of supply and services. Improvement and reconstruction of the telephone and data communication networks, of the transportation (railroad) main line network, and within water management the protection of water quality and providing a healthy drinking water supply are of outstanding importance.

In developing the nonproduction infrastructure we must continue to focus the resources on satisfying the needs for basic supplies. The resources of the population and of the enterprises will be given an increasing role in developing the infrastructure. Those formats must be expanded through which the population's interest in improving the infrastructure can be increased, since presumably these form the most easily mobilizable resources for increasing the level of being supplied by the infrastructure.

New Requirements--Changing Investment System

The new tasks and requirements of the investment policy call for changes in the investment system, in regulation, and also in the tools which serve the investment policy's implementation. For example, during the course of further development, the regulation of incomes must be modernized in a direction so that the quantity of the resources formed would depend on the success of economic operation. The state with its own resources should help implement the good goals and profitable activities rather than support the weak ones. The banking system must be modernized, we must broaden the opportunities for the flow of means--and the list of tasks could go on--most of these also included in the programs for further developing the economic management system.

In what follows I will treat in detail only one question, that of further developing the decision making system.

--Development of the Decision Making System

In the practice of the last decade and a half the decision making levels often slid into each other and got shifted upwards. This has led to fading of the spheres of authority and responsibility. In this time period the

developments of economic units belonging to the competitive sphere were also in several cases implemented by decisions made by the state. At the same time, according to the correct principles of the statutes some developments qualifying as state investments were formally transferred into the category of enterprise investments. Naturally the high level of centralization of the enterprise organization system and the strong concentration of means which took place at some major enterprises also contributed to the intertwining of state and enterprise decisions.

The investment decision making system serves efficiently the achievement of economic policy goals if the central and the enterprise decisions are more consistently separated from each other. More consistent delineations must be made as to which area developments must be carried out by state decisions, and which ones by enterprise decisions.

In separating the spheres of authority the starting point must be that the authority should lie wherever the domestic and international information needed for forming the foundation for the decisions are available, where the ability to bear the responsibility for accepting reasonable risks can be expected to exist, and where the conditions for development and investment implementation can be most efficiently created. For this, the decisions over the investments and the financial means must also be separated better from each other.

--Path of Modernization: Decision and Responsibility Belong to the Investor

This latter means that the investor must provide the financial resources needed for the investment, decide about implementation, so that in the final analysis he bears the responsibility for the investment as a whole. At the same time the financial institute, or the enterprise or institution which has the financial means is carrying on independent economic operations with its means. It alone decides whether it wishes to participate in financing the development, and in doing so what risks it will accept under what conditions.

Implementation of this principle is particularly important in the competitive sphere where a given development can be realized only if the party making the investment decision can produce the financial resources without violating the interest and decision making freedom of the owners of the money, or if it can obtain the money from others. For this very reason the gain in popularity by mixed financing does not mean mixed decision making.

--Direct State Intervention...

It is an important issue in modernizing the decision making system to correctly determine where direct intervention by the state is necessary. My opinion is that in areas outside of the large volume developments of energy management and of the producing infrastructural branches it is not justifiable to make direct investment decisions by the state, or it can be only in very exceptional cases.

--...and Enterprise Decisions Made from the Business Viewpoint

Thus in the area of the competitive sphere the enterprise decisions inspired by business viewpoints must prevail. Within this area the state can participate indirectly in shaping the developing processes by forming the economic conditions: the main task is to help the profitable enterprises to prosper.

In developing the nonproducing infrasturcture the possibility of direct central investment decisions must be limited to a narrow area. The bulk of the decision rights related to this type of investments must be given to the councils, while ensuring that the professional influence of the branch ministries and organizations of nationwide authority will be observed.

The investment decision system must create appropriate conditions also in the dual sense to make the undertakings increase in popularity. On the one hand the majority of the decisions should be decisions to proceed with the projects, which requires a closer relationship between the responsibility for the investment and for the operation; and on the other hand if must be made possible that planning and implementing the developments be carried out as undertakings.

How do we want to implement the above listed principles, to "cash them in"?

Solutions for Further Development

It is an important goal of changing the investment system that in the most important development questions with economic strategy significance the state's guiding role should prevail more effectively than now, but we should not create the opportunity to intervene in those investment matters in which accepting the risk and responsibility connected with the decisions belongs to the enterprises and cooperatives.

Analyses made so far have shown that the main task of modernization is not the introduction of new basic categories. Clearer identification of the content and character of the categories, the regulated methods of the state's intervention, changing and simplifying the procedural order constitute those main elements of the further development through which the modern interpretation and implementation of accepting responsibility and risk becomes possible.

--Four Main Investment Categories

Beginning with 1985 it seems justifiable to distinguish between four main categories (central, council, enterprise and popular).

Investments implemented on the basis of central decisions may be planned and implemented as major investments, group goal oriented investments and miscellaneous central investments.

Energetics, the infrastructure and in extremely exceptional cases developments of singularly outstanding importance and national significance in the producing and raw material industries belong in the category of major investments. These are investments where responsibility for the decision must be accepted

at the government level: where preparation requires definite coordination by the state, and where creating the conditions for planned implementation requires central guidance and control. It is expeditious to simplify the content specifications in the investment proposals of major investments in the interest of enabling the governmental organization to concentrate on the most important questions in making the decision. That is, a portion of the present specifications serves only the formality of creating the foundations for the decision.

Those developments of infrastructural character would belong into the category of goal-oriented investments which concern the build-up of national netw rks, are of outstanding significance from the national economic viewpoint, and where preparation and implementation require definite coordination by the state. With these viewpoints in mind we want to review the extent and content of goal-oriented investments.

In case of both the goal-oriented and the major investments we must increase the personal responsibility of whoever proposes the creation of the foundation for the decision proposal as well as its planned implementation.

Investments of the state-operated and scientific research organization and institutions which conduct their economic operation in the budgetary system under central management, and the investments of decisively communal character by social organizations which cannot be listed in the first two categories, can be implemented as miscellaneous central investments. In this category the national economic plan establishes budget amounts. By increasing the independence of the budgetary organizations we wish to accomplish that they should examine jointly the one-time costs of the investments and the continuing costs of operating it during the course of the development decision.

Introduction of the uniform category of council investments will result in significant increase in the sphere of authority and responsibility of the councils.

In designating the local development goals and implementing the investments aimed at achieving these, greater emphasis must be put on the participation and material contributions of the population and the enterprises, and on the financing constructions with increased interest in this. This naturally also presumes that the population and the enterprises and cooperatives operating in a given area are meaningfully included in the preparation of decisions related to such developments, that is, social control over the council investments is strengthened.

The local council must have a right to decide about investments which improve services to a smaller area, while the decision-making authority of the county councils is limited to developments which affect several settlements or a larger region. Naturally this type of distribution of the decisions also requires changes in the council regulations.

In the interest of avoiding duplications and waste the ministries with authority over the branch and the organizations of nationwide authority must give their opinions about outstanding development goals of national significance.

The category of enterprise (cooperative) investments includes the developments planned and implemented on the basis of decisions built on individual business considerations. The investment opportunities are determined basically by the income producing ability of the economic operating organizations and by the flow of capital. The investment decision--with the knowledge of the financing resources, conditions and efficiency requirements--are made by the management of the enterprise (or cooperative) and thus it is responsible for the entire investment. It is a basic requirement that the sphere and format of state influence be developed under regulated and standard conditions. Thus in this area the state may provide financial benefits but may not assume the decision-making for the investment from the economic operating organization. This is a significant change compared to the present practice.

The state wants to promote primarily the acceleration of the technological development activity. It participates in financing the investments by taking over a part of the interest payments, giving tax benefits or in some cases by providing funds. Winning the financial benefits through competition to help reach the quality goals announced by the state not only makes it possible but also compels more than before that the expenditures and yields be weighed, and that emphasis be placed on the viewpoints of profitability.

As these formats gain ground, the profitability viewpoints and market circumstances will have a greater role than before. In this sphere the state benefits must be limited to a very narrow circle and extent.

Decisions related to the investment activity of public operations require further consideration. A significant portion of these enterprises also have supply responsibility. Presumably this must also prevail in the investment decisions. This may mean that in development decisions the enterprise's independence can vary depending on the enterprise's character, so that it may also be limited. But we consider it a basic principle that this must not involve violation of the enterprise's present independence.

These changes, adjusting to the complex further development of the economy's management, will in all certainty contribute to improving the efficiency of the investments and to realizing our economic policy goals.

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SURVEY REVEALS NATION'S RELATIVE INDUSTRIALIZATION

Budapest FIGYELO in Hungarian 26 Jul 84 p 3

[Article by Jozsef Nyers: "At Midfield's Edge"]

[Text] Perhaps it is surprising to many people that the age composition of the Hungarian industry's fixed producing assets is favorable in international comparison. This does not change the fact that our industry's technological level is mediocre in harmony with the country's general level of economic development. In the international value system the "mediocre" technological level defined in terms of quality aspects means that:

--we use modern technology with several years of delay,
--abandonment of obsolete machinery and technologies is slow,
--the rate of product modernization is insufficient,
--old, obsolete products and the new ones live side-by-side over long periods of time,
--the ratio of products requiring research is low.

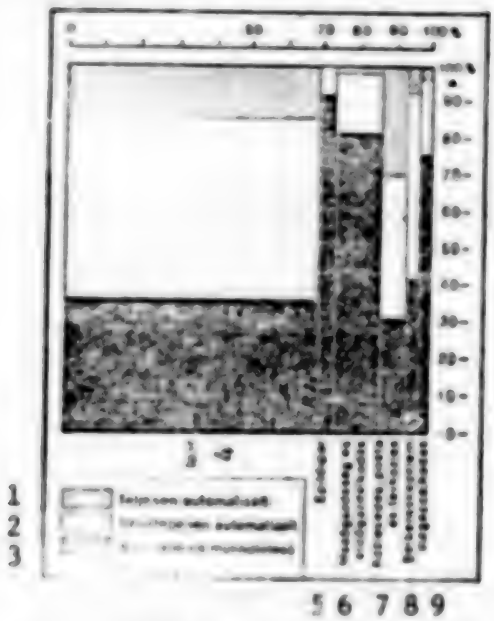
Naturally the characteristics listed can be found at various extents in the various branches and enterprises.

Ratio of Automated Machinery

Experience gained from studies based on statistical indices lend much credibility to this summary qualification--even if we treat the numerical results with some reservations. In the 1970s the KSH [Central Statistical Office] compared the industry's technological level on the basis of contentually coordinated indices, in cooperation with the Polish and Yugoslavian statistical offices. The results showed that the level of the production activity's automation in spite of the high rates of accumulation and investment of recent decades, was quite low in the industries of all three countries. In the mid-1970's the combined ratio of partially and fully automated machines was 62 percent in our country, somewhat higher in the Yugoslav industry, lower in the Polish industry. In all three countries compared to the group of industrially developed countries the ratio of fully automated equipment within the machinery park was especially low, about 8-10 percent. The domestic industry's technological level in some branches of the machine industry, the chemical industry and the food industry was higher than in the partner countries.

Based on various polls and other information, mainly from the trade literature it can be concluded that in recent decades the modernness of industrial technologies improved only modestly.

Table 1. Distribution of Machine Park According to Technological Level



[Key: 1. Fully automated 2. Partially automated 3. Mechanically operated 4. Industry 5. Construction industry 6. Agriculture and forestry management 7. Transportation, postal service and telecommunication 8. Domestic commerce 9. Water management]

The multifaceted international comparison made by the CEMA secretariat's statistical department concerning the 1970's studied the technological levels in three selected branches: machine production, electronics and textile industry. According to this the ratios of partially and fully automated machines in Hungarian machine manufacturing are essentially identical with those of the GDR, somewhat lower than in the Czechoslovak, and significantly higher than in the Bulgarian machine manufactures. Like in all statistical evaluations and comparisons done for the first time, for methodological reasons the information here also can be used only with reservations. But one typical difference is that while the fully automated equipment makes up 14-15 percent of the Hungarian and GDR machine parts, this ratio is 10 percent in Czechoslovakia and 6 percent in Bulgaria.

Among the countries studied the ratios of partially and fully automated machines are highest in the machine parks of the Hungarian electrotechnological and electronics industry: it is 23-24 percent in this country and in the GDR, 9 percent in the Czechoslovak industry and about 5 percent in the Bulgarian industry.

More than half of the machine park of the textile and knit-weaving industry is made up of machines automated at various levels in the countries studied. The ratio of automated machines is significantly smaller in Hungary than in the Czechoslovak textile industry but the technological level of the branch is more favorable than those of the industries of the GDR and Bulgaria. But the ratio of fully automated machines representing really modern technology is less favorable in this country.

The ratio of fully automated machines was nearly 25 percent in the Czechoslovak textile industry, 5 percent in the GDR and only 4 percent in our country.

As a result of the multidirectional studies it can be assumed with a high degree of reliability that in the domestic industry the use of machinery equipment and technologies automated at a high level has a significantly lower ratio and is limited to a few key branches or enterprises. In the area of basic activities there is a higher level of mechanization, at certain points partial automation is typical, and mechanization of the supplementary processes is at a lower level.

Youngsters and Oldtimers

From the distribution of machinery by age we can to a certain extent reason also about the machine park's technical level, assuming that the technological level of the younger machines is generally higher than that of the older ones.

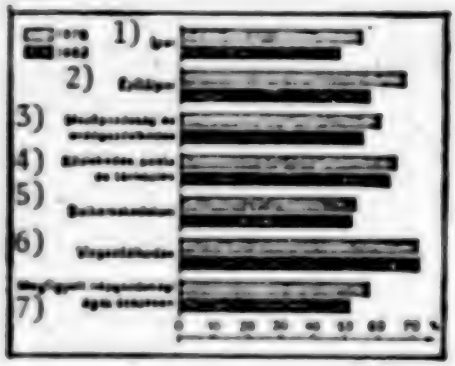
Available information indicates that contrary to the popular opinion the domestic machine park's age composition is not unfavorable. The average age of the machines in the Hungarian industry is about 2 years lower than, for example, in the GDR and only slightly older than in Yugoslavia. In the machine industry the ratio of equipment younger than 10 years is more favorable in Hungary than in the United States, England and France. Thus the mediocre technological level of industrial production and especially of the machine industry can be only partially explained with the age composition of the machines. The role of the over-all mediocre technological level of the recently invested equipment is much more significant. This is the explanation for the slow growth of the technical and technological level which has developed. The distribution of investment data according to technological level also indicates this.

Compared to the industry of the developed capitalist countries our lagging is particularly significant in automating the production processes, and introducing and spreading the modern technologies.

Industry's machine park increased by nearly one-third between 1978 and 1982, which corresponds to a 7 percent annual growth. Due to the cutback in investments and the tightness of financial means available for development, the rate of renewing the machine park--that is, the ratio of investments to the value of the operating machine park--decreased from 13 percent to 8 percent by 1982-83. During the 4 years studied, machines and equipment valued nearly

200 billion forints were placed into operation, but their effect in raising the technological level was moderate; the machine park's level of automation hardly increased at all. Among the industry's more important branches the ratio of automated machines representing more modern technology increased appreciably only in metallurgy and in the food industry.

Table 2. Net Value of Machines and Equipment, in Terms of Percentage of Gross Value



[Key: 1. Industry 2. Construction industry 3. Agriculture and forestry management 4. Transportation, postal service and telecommunication 5. Domestic commerce 6. Water management 7. The national economy's examined branches combined.]

No significant change has occurred in the ratio of construction-to-machinery in the investments, the rapidly recovered investments aimed primarily at machine purchases have not gained emphasis. From the technological development viewpoint it is not a negligible factor either that the ratio of modern machine investments which can be purchased from import has decreased in recent years.

Unfavorable Branch Composition

Change in the composition of investment among the branches cannot be considered favorable either from the viewpoint or competitiveness or technological growth. In the last 5 years emphasis has been on the growth of branches which produce raw materials and especially those in energy management. Branches or processing industry were available for modernizing to a lesser degree than the necessary resources. This narrowed down the development and modernizing opportunities in those branches of processing industry that are significant for export. The present branch composition of the investment resources cannot be maintained for a long period of time; modernizing the processing industry and its technological and product structure is one of the urgent tasks of our industrial policy.

At the present time a high degree of differentiation characterizes the processing industry's technological level. Alongside of the most modern processes, machines and equipment often old technologies and obsolete machines are operating simultaneously. It is unfavorable as regards strengthening our competitiveness or development policy of the future that the structural policy tools we are using--including the central development programs--have not proven themselves sufficiently efficient in developing the magnet branches, modern in every respect and competitive on the convertibly accounted market as well, relying on which we could develop a broader-based development policy. Polarization of the level of production procedures can be observed within the individual branches and in some cases even within the individual enterprises.

The technical and technological level shows a rather varied picture even in the infrastructure connected with industry, and the recently occurring growth has also been rather uneven. Due to these circumstances the paths and directions of growth are also difficult to define, at least centrally.

To Force Innovation

Various international evaluations prove that the Hungary's industrial branch or sub-branch structure has hardly changed--even when examining a longer period of time. The structural change is taking place mainly within the various product groups, and the results of technological growth are surfacing primarily in the microstructure.

The main directions of technological growth (for example, electronization, biotechnology, development of material and energy saving technologies, etc.) can be identified. But it cannot be indicated even two or three years in advance, and even less so for 5 or 10 years, what products or product groups can be sold at a good price. For this very reason the capitalist countries help technological growth, keeping up or breaking out up front, by supporting basic research and the industrial-level developments of general character. Whether or not a marketable product will derive from the novelties thus born, is decided at the enterprise level.

The role of the specifically structure-forming developments and investments cannot be argued, but their extent and the allocation to branches and enterprises is determined to a significant extent by the market. Strengthening the market sensitivity is unavoidable in the development of products and technologies. Lasting success can be expected from rational delineation and consistent execution of the tasks of central management and enterprises, enterprises and personal interests which encourage technical growth, and from using the proper management, financing and wage-paying formats. Those who work in the various specialized areas of the chain of innovation must be made interested in following the market changes with attention and to follow or adopt the results of foreign technological developments. The enterprise's competitiveness and even within this the exporting ability and profitability can be assured for the long term primarily by quick reaction by the enterprises.

In these years when investment opportunities must be limited, significantly stronger selection than before must be implemented and implemented by others in the growth-versus-cutback decisions. Even with the more limited financial opportunities the infrastructure must be expanded to such an extent that acceleration of the research and development activity and improvement of its effectiveness is made possible. An economic environment must be shaped which not only encourages but also forces the enterprises to accelerate innovation, improve the efficiency of investments, one which eliminates the isolation of research and development from production, accelerates the adoption and rational expansion of foreign technical knowledge, and helps expand the international cooperative relationships.

8584
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FINANCE OFFICIAL SPEAKS ON CHANGE IN ENTERPRISE INCOME REGULATION

Budapest HETIVILAGGAZDASAG in Hungarian 18 Aug 84 pp 50-52

[Interview with Istvan Farkas, chief of the economics department of the Ministry of Financial Affairs, by Julia Gati: "Givers and Receivers"]

[Text] It is expected that the regulations which will define the freedom of movement for enterprise management for the next one or two years will be published in October. This much can be known already, that although the linear profit tax will decrease the central withdrawal as a whole will increase. We asked Istvan Farkas, chief of the economics department of the Ministry of Financial Affairs, about the changes in enterprise income regulation which will go into effect next year.

[Question] The enterprise leaders complain every year that they are informed late about the modifications in the regulators which will be implemented. They become almost incapable of making decisions in the last quarter of the year because they do not know what they must reckon with beginning next January first. It seems that the work connected with the modification is being done earlier now. Is it possible that those interested will get the expected information sooner than usual?

[Answer] I consider it realistic that the regulations connected with the regulator modifications could appear in October at the earliest. I think it is impossible for the enterprises to get full information much earlier than this, if only because according to the program the State Planning Committee will discuss the draft regulations in September. But compared to the practice thus far it is certainly an advantage that the principles of the planned changes--thus not the concrete magnitude of the modifications--are known already in a fairly broad circle. Obviously this is not enough for concrete management decisions, but it can offer a starting point for developing the strategy of the enterprises.

[Question] The Central Committee stand concerning the tasks for a further development of the economic guidance system states that some steps of the further development are tied to definite points in time while others require constant implementation. In which category do changes in enterprise income regulation belong?

[Answer] Enterprise income regulation requires constant work. All the modifications pertaining to this will not go into effect at once, certainly not on 1 January 1985. According to present thinking however some of the modifications pertaining not only to 1985 but also to 1986 will have a place in the regulations appearing now--to the degree possible. Thus, in the case of these we would like to announce the entire modification, in such a way that only part of them will be valid in 1985. Thus the enterprises will get 1 year preparation time. But one should not conclude from the "pre-published" changes that there will not be other modifications beginning in 1986, it will mean only that these are the points in which agreement developed on concrete solutions in accordance with the principles when drafting the 1985 regulations.

[Question] What do you consider to be the most essential change in the enterprise income regulation to go into effect at the beginning of next year?

[Answer] I would rather say what is the most important change as a whole, thus including the changes planned for 1986. We will try to realize with tools more purposeful and more rational than before what continue to be the basic aspects--an external economic balance, limits on domestic use and control of purchasing power. We will try to take a number of steps which will increase enterprise freedom of movement, not too spectacularly but somewhat.

[Question] What are these tools or methods you have called more rational?

[Answer] One--if not the most important--is that at present the enterprises generate a risk reserve under about 15 or 20 headings, different ones for prime contracting, export risk and so forth. Without exception these moneys, with "ribbons" on them, are generated from untaxed profit for the purpose of bearing risk. So if each of them has the same function it is senseless to keep them separate. So beginning next year we want to combine the majority of them into a gross profit reserve. Another, more important change, is that after paying the taxes the enterprise will decide whether to use the undistributed fund, that is the taxed profit, for investment, accumulation or to increase personal incomes. The welfare and cultural fund is an exception; it will remain separate and can be used only for purposes indicated by its name. It is a very essential additional change that we want to realize the unavoidably strict control of enterprise purchasing power--primarily in regard to developmental resources--with a property tax and a tax burdening accumulation instead of the developmental fund withdrawals used thus far. The essence of these taxes is that the withdrawal will not be made a function of the resources generated; that is, we are trying to moderate the principle of "taking more from where there is more."

[Question] I would propose that we take the various elements of income regulation in sequence, step by step, beginning with how the enterprises will calculate how much profit the activity of the entire year will bring.

[Answer] In the first place the enterprise can decide how much of the gross profit to set aside as a reserve fund, before taxation. Then come the withdrawals. According to the present thinking the size of the linear profit tax will decrease from the present 45 percent to about 35 percent. In reality

this means a reduction in income centralization of about 3 percent--considering that hereafter the urban-community contribution will not decrease the base for the profit tax and so the base on which the tax is levied increases. The wage burdens will increase also, by about 10 percent, in the interest of conserving live work and controlling purchasing power. The profit decreased by the urban-community contribution and the linear tax is the undistributed fund of the enterprise, which is increased by the amortization remaining at the enterprise. According to the present proposal a 10-percent wage proportional tax must be paid out of this, as well as the already mentioned property tax going into effect next year as something new. The magnitude of the latter--at least in 1985--is expected to be 2 percent. The managing organizations pay this tax on their own property, thus on their money property as well. Naturally the concept of one's own property does not include loan resources, thus the property tax will not unrealistically increase the burdens of those enterprises which have significant credit and loan repayment obligations.

[Question] If I am calculating correctly the introduction of the property tax more than counterbalances the 3-percent reduction in the profit tax. So withdrawal will increase as a whole. Why did the child have to be given a new name?

[Answer] It is obvious that if economic policy gives a primary role to controlling purchasing power then income centralization cannot decrease. The change now is in the means of centralization.

[Question] Would it not have been simpler to increase the size of the profit tax?

[Answer] The profit tax depends on the magnitude of the income generated, so the greater the tax key the more it blunts the profit differences among enterprises. If we realize income centralization with a withdrawal tied to resources, then this is independent of the size of the profit. The property tax is a formulation of the requirement that the resources used should ensure a profitability of at least 2 percent. This is not a maximalist requirement, for in the case of management using credit even the bank interest exceeds 10 percent--and if the investment is to pay off it must produce a profit above this. So the tax levied on one's own property can be conceived of as a sort of yield requirement. At the same time it may encourage the saving of money, because the interest received on lasting deposits could be more than four times the property tax.

[Question] Will the centrally withdrawn portion of amortization change?

[Answer] According to the thinking the centralization of amortization will decrease next year to half the present amount. Up to now the enterprises could retain 60 percent of the amortization. In 1985 they will retain 80 percent, and we plan that beginning in 1986 there will be an end to budgetary payments for all of the amortization. In this way we will satisfy the just demand that developmental possibilities not be limited where the cover for this is generated. On the other hand we must note also that this gesture which seems so open-handed is not so open-handed, because even now--thanks to a number of

exemptions and exceptions--the bulk of the enterprises pay into the budget an average of only 20 percent of the amortization generated. It is true that even so the sum flowing in reaches 15 billion forints. But we do not want to let loose extra developmental resources of such size on the economy all at once--so releasing the second 20 percent must wait a year. So, this undistributed fund--which now contains the amortization--must provide cover for the wage proportional tax and the property tax or for development and increasing personal incomes, and the taxes connected with this, the size of which is influenced by enterprise decisions.

[Question] I presume that these decision possibilities will continue to be kept within relatively narrow limits, for the national economic plans still do not count on a significant increase in investment purchasing power.

[Answer] If the leadership of the enterprise decides to let its money--decreased by taxes--accumulate, but not as money, i.e. not in bank deposits but rather if it increases inventory or invests, then they must know that in the present economic situation there is no advantage to extensive growth. They should know that enterprises which decide this way will be obliged to pay an accumulation tax. The accumulation tax is tied to new accumulation payments, independent of whether these are financed from credit or from their own money--and all this applies to a lasting inventory increase too. In practice--according to the magnitude under consideration at present--with this tax accumulation will "become more expensive" by 15 percent as compared to the present. Similar to solutions used widely throughout the world, this can be regarded as a sort of business cycle control too.

[Question] If you intend the accumulation tax to play a role as business cycle regulator does it follow that the tax key will change frequently?

[Answer] Even zero percent is a meaningful magnitude for this tax, for it does not hold back, indeed it is a relative incentive for accumulation compared to the preceding period--if there had been an accumulation tax then. Of course, when setting the percentage we must take into consideration the rate of inflation, because if prices are increasing faster than the tax then this withdrawal loses its limiting role.

To return to the earlier question, it is also an enterprise decision whether, under these conditions, to invest or increase personal incomes, assuming the taxes connected with these decisions, or to save its income, waiting for more favorable profit prospects or market bargains. It is obvious that the degree of freedom for this decision is not realized with such theoretical purity, for an operating enterprise has made earlier decisions too, and the consequences of these limit the possibilities of choice.

[Question] Budgetary supports have increased by 40 percent in the past 3 years, the logical counter of which is that withdrawals have increased by at least as much too. And it is possible to make withdrawals only from enterprises which are working well. Is this not contrary to the announced principle that enterprise independence should increase?

[Answer] It is a very plausible argument that the magnitude of budgetary redistribution and enterprise independence are categories which can be opposed one for one. But this is not absolutely true, even though the magnitude of redistribution is a question which cannot be ignored. In my judgment the form of the regrouping of income is a problem more serious than this. The redistribution forms can be in harmony with enterprise independence. Let me give an example. Let us say that support for those with reduced work ability increases, then the supports increase with this--if the enterprises employ them in large numbers. But this does not curtail enterprise independence, for they decide whether to hire such workers with the given support or not. On the other hand the principle that the net income generated must be shared involves taxation, and every sharing, by its nature, blunts the differentiation among enterprises somewhat. At the same time, taxation should not change the direction of the income differences appearing in prices.

[Answer] The enterprises often complain that not only the withdrawals but also the concessions and exemptions from the normativity of the regulators--the rules applying uniformly to everyone--favor the weaker enterprises. Will there be exceptions in the income regulation going into effect on 1 January too?

[Answer] Necessarily so. Even today many other sorts of income regulation are in effect in addition to the system of enterprise income regulation. In the future we will try to see to it that there will be a general system of income regulation where market conditions prevail or could prevail. But in these areas where profitability does not motivate management primarily we must use other, public service type regulation. So from the viewpoint of income regulation--as a function of market conditions--we must make a distinction between public service type management and enterprises with a profit interest. But this distinction should serve the goal of strengthening the normativity of regulation in the profit interest sphere. Up to now we have aided activities requiring an income regulation necessarily different for objective reasons with tools which differed from the general system but which remained within the framework of it. This, however, has violated the logic of the general system and has given occasion for the realization of differences on the basis of subjective factors as well.

8984
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ENTERPRISE DIRECTOR ON STRATEGY OF RUBBER INDUSTRY

Budapest NEPSZABADSAG in Hungarian 11 Aug 84 p 5

[Interview with Ilona Tatai, director general of Taurus Rubber Industrial Enterprise, by Judit Kosma: "About the Rubber Industry's Strategy"]

[Text] With its production of 9 billion [forints], 10,000 employees, 6 factories, foreign and domestic trade organizations the Taurus Rubber Industrial Enterprise represents four-fifths of the domestic rubber industry. Half of its products are sold on foreign markets, its production, export and profit are constantly increasing. It provides 0.4 percent of the world's total production and a little over 1 percent of its trade. How can this position be preserved? What strategy has the Taurus chosen?--We talked about this with Ilona Tatai, director general of the enterprise.

[Question] What occupies the public opinion in connection with the Taurus today is primarily that there are no passenger car tires--that is, they can be bought only after long waiting, in designated stores, after showing personal identification. What caused this situation?

[Answer] Supply problems are also severely affecting the Taurus. It also erodes our good name, and causes significant losses in income from sales and profits. Therefore the enterprise is making efforts to improve the supply. We do not produce passenger car tires but receive them in exchange from the socialist countries for truck and agricultural tires and other rubber items, on the basis of long term international agreements. Besides this we have been importing 150,000-200,000 tires per year from the capitalist countries.

Shortage Situation

But in the most recent years this situation has changed. On the one hand our capitalist import opportunities have decreased, and on the other hand the supplying abilities of our socialist--mainly the Polish, Czechoslovakian and Romanian--partners have been gradually decreasing since 1981. Last year we received 425,000 less, this year 360,000 less than specified in the long term international agreements. It also was unable to counterbalance the shortage

situation which has developed that with technical assistance from Taurus, the TSZKER [Producer Cooperative Supply Enterprise] established 6 recapping plants the output of which this year will reach 450,000 tires.

It made the situation more difficult that in recent years the sales network has significantly expanded. There was a very strong and in many respects justified demand that it should be possible to purchase tires where car parts are sold. So while tires could be bought in 40 places in 1970, 160 places sold them in 1980 and 360 sell them today.

[Question] These 360 selling places don't seem so numerous even in a small country.

[Answer] It would not be too many if there were enough tires. But in order to have the right supply, every store must carry the full selection. In the present situation we cannot meet this demand in spite of the fact that we have made great efforts to ease the shortage and according to our plans we will sell a total of 1.5 million tires this year, 25 percent more than last. So far we have purchased 100,000 tires from the capitalist countries, and we are also helping the recapping plants to make maximum use of their capacities. At the same time, of the 82,000 tires promised by the socialist countries for the third quarter so far only 10,000 have arrived, so there are problems again with delivery. In this situation in no way can we undertake to supply all the stores. It was therefore necessary to designate a few stores. And with the showing of personal identification we wish to prevent large volume purchases, and make corruption more difficult.

[Question] Channelling the supply onto an administrative path, even though Taurus's reasons are understandable and correct from the enterprise's viewpoint, have caused justified indignation in many people--in no way is this method compatible with the intentions of our economic management and with the principles of further growth.

[Answer] The present shortage situation has forced us to take this obvious emergency solution. The administrative measures are only temporary and I hope that they can be lifted as soon as possible. If an ample supply of passenger car tires were available, it would solve the problem. But we cannot expect it this year. That is, there is a shortage of this product in the socialist countries also. The steelbelted radial tires have a high capitalist import content, thus the product is considered to be an increasingly hard item. Trading for them exclusively with rubber industry items is an increasingly difficult path which cannot be travelled over the long range. We must expect that we will have to provide other industrial items also in exchange for passenger car tires. Even today there are examples for this: for example, the LIGNIMPEX [Foreign Trade Enterprise for Lumber, Paper and Fuel] sells lumber to a capitalist firm and it pays for this in tires, and the KONSUMEX [Foreign Trade Enterprise (Handles import of consumer goods and export of toys, musical instruments, art objects and commercial equipment)] imports tires in the border-zone trade. Such agreements will have an increasing role in coming years. This is not just Taurus's task but we can also help in these deals.

[Question] Based on all this what role will the supply responsibility play in Taurus's strategy?

[Answer] We must expect that the Taurus will continue to import 800,000-900,000 tires per year, that is, we will remain the largest importer in the future also. And we accept the supply responsibility partly because it is our opinion that in the construction which has functioned well so far the Taurus can handle the exchange the most economically. Besides, this is also advantageous to the enterprise. While the enterprise is profit oriented--and this is not likely to change--for us supplying the domestic market is a question of survival. We also consider supply to be a moral obligation for us, satisfying the domestic need on a high level occupies a primary position also among our strategic goals.

We have done much for this in the Fifth and Sixth 5-Year Plans also. By modernizing our product structure we have not only increased our export but also significantly decreased the capitalist import. In 1982 we imported finished products for $25 million, in 1984 for only $8 million. At the same time we increased our capitalist export from $15 million to almost $50 million, thus the sales income from our export provides the foreign currency requirement of our entire production. Instead of the earlier capitalist import we supply tires today to the HUNGAROCAMION [International Automotive Transport Enterprise], the Raba, the Ikarus, and we have also replaced a large share of agriculture's tire import with our own products. To us the domestic market means security. We export almost 50 percent of our production, and we could not do this without a stable domestic market background. It would have been more difficult to live through the large decrease in capitalist truck tire sales in 1981 if we did not have the secure domestic market behind us.

Perspective Products

[Question] What opportunities are there for the enterprise on the foreign markets? To what extent can a living be made from the present items over the long range?

[Answer] Strategic products make up the bulk of our export. Most important among these are the radial truck and agricultural tires, which make up about 60 percent of our production. Among the technical rubber items the special purpose, large diameter flexible pipes and hydraulic hoses, the air springs [sic], the foils and the products made from these can be considered to have good prospects also over the long range. Our inflatable rubber mattresses which on the foreign markets are still among the leaders in the world, can also be listed among the strategic products.

[Question] Among the rubber items considered strategic products today, which ones can be considered to have perspectives also over the long term? What considerations define the circle of strategic products?

[Answer] These product groups are generally characterized by being economically producible, representing a technological level which is acceptable also on the international level, are competitive on the markets, and we have

the material and intellectual means to constantly inprove then or maintain then on the level. These requirements are met today by 63 percent of our products.

Among our present strategic products the inflatable camping items cause the biggest problem. That is, it is doubtful how long we can remain competitive with these products. The domestic textile industry has increased the prices of cloths so much that we can no longer use them in our finished products. Their ability to supply us is not satisfactory either, because it is more favorable for the textile factories if they can export their products directly. At the sane time the rapidly industrializing developing countries represent increasingly strong and relentless competition. Thus probably in spite of our quality advantages in a few years we will have to retreat from the capitalist markets.

Tires will by all means remain an important export item for us since even if its specific profit content is lower than that of the technical rubber items, this produces the majority of our profit. But its ratio in production--even though production will increase--will fall back to 50 percent because according to our calculations the development and production of technical items can bring the enterprise higher profits and more favorable sales opportunities on foreign markets.

The most significant among these is the family of drill hoses for land and sea use which we developed ourselves. Even now our share of the foreign market of this reaches 40 percent. There are only one or two firms in the world which can furnish this sensitive and confidential product in the quality Taurus can. By all means we want to keep this advantage. Besides our traditional products it is by all means necessary to develop new product families. We are talking primarily about new types of technical rubber products. One of our plans is to produce heavy track covers suitable for various purposes, among other things for mass sporting events, from rubber industry wastes jointly with an Austrian firm. With plastics technology, with rotational molding we will produce new types of hinging accordions for the Ikarus buses. Another characteristic of our development ideas is to develop and sell complete systems rather than products, because over the long range this may produce higher profit for us. Within the framework of systems development we endeavor to join the energy program by producing solar collectors and biogas tanks with flexible walls, and by creating water construction structures. We are also participating in the national program of electronization.

Big Results from Little Money

[Question] How much money have you spent here with this listing?

[Answer] These are surprisingly small development projects. Production in the accordion joints for buses can be solved for 8-10 million forints, for example; the waste rubber processing needed for the athletic field program costs 16-20 million forints, which, furthermore, will be recovered within a half year from the profits. Comparing it, for example, to the one billion minimum where the development of tire production begins, very big results can be reached for very little money. And together with all this a significant cleaning of the

profile is under way at the enterprise. We want to concentrate our resources on those products which also correspond to the capitalist market's demands. But in order to do this, we will have to discontinue the production of quite a few products.

[Question] Is there someone to whom some products can be "transferred," and with whom the enterprise can cooperate?

[Answer] In this country there are 98 small and medium-sized plants and another 450-500 private producers producing 2.4 billion forints' worth of rubber products. There is a chance that quite a few of our products can be produced more economically in these plants than at Taurus. New organizational formats and cooperation with other enterprises will also be necessary for the new products, especially for expanding the systems export. For example, we have established a joint plant with a producer cooperative for the production of hose connections. With the Aranykalasz TSZ [Producer Cooperative] of Halmaj we set up a joint company under the name "FLEXI" to produce various kinds of flexible-walled space separation elements. We develop and produce the roof insulation systems jointly with the Eastern Hungary Building Industrial Enterprise [KMEV].

We have foreign partners for some of our developments. Unfortunately we are unable to enter into joint developments with domestic industrial enterprises. For example, we have established joint enterprises in the United States and in Vietnam, which were much easier tasks than joining with domestic enterprises.

[Question] What is the explanation for this?

[Answer] There are also regulatory problems. But it is also difficult to find the common interests. The enterprises are not finding themselves forced the same way to make changes, to work on new undertakings.

[Question] This compulsion is expected to become stronger in the coming years, the plans related to further development of the economic management are among other things aimed at this very goal. How much of all this is visible today?

[Answer] Today we know very little yet about the changes in regulators. For example, the concrete changes in the price system, income regulation and taxation are not known. Mostly the changes in the enterprise management system have been outlined. For example, in this respect it is certain that much attention must be paid to ascertain that the functioning of the body which makes the decisions in strategic questions should not be a mere formality. We must therefore, among other things, find ways for those who participate in enterprise management to be able to thoroughly prepare themselves to take action and make the necessary decisions.

The details are not yet known today, and thus the effect of the changes cannot be measured either. But based on the guidelines of further developing the economic management and on the resolution of the MSZMP's [Hungarian Socialist Workers' Party] Central Committee we expect that the planned increase of enterprise independence, higher material and moral appreciation of those who

work the best, and differentiation on the basis of actual performance will create favorable opportunities for implementing the Taurus's strategy.

To Accelerate Innovation

[Question] Is it possible at all to speak about strategic planning without concrete knowledge of the regulations?

[Answer] The prognosticating approach, that is, the possible foresight of the future's important elements is one of the stable supports of making strategies for an enterprise. The important thing is not that we know accurately every detail, but rather that we be able with great probability to estimate the most important market changes and the directions of technological development of the following era. Based on this our opportunities can be estimated well.

Our analyses have disclosed that the use of rubber products worldwide is tied to economic branches and technologies which grow more dynamically than average. Thus the market background does exist for the rubber industry's dynamic growth, and the well selected strategy is the very thing that can help exploit it. Under difficult economic conditions especially the strategy determines whether decline or renewal awaits the enterprise. At many capitalist rubber industry firms, for example--not to mention the ones which went bankrupt--declines as large as 20-30 percent were seen, while other firms were able to increase their sales manifold.

In the present situation we can seek the key to growth in accelerating innovation. The first practical requirement for this is strengthening the systems approach. I have already mentioned before that we wish to definitely participate in the development of the various energy management, biotechnology, computer technology and other systems. Development of the domestic resources is very important, among which we now have a good opportunity to increase primarily the intellectual resources and improve the technological level. Satisfying the domestic needs will continue to remain an important element of our strategy, in which the international sharing of labor will receive a large role: we want to continue to actively participate in developing and deepening the CEMA relations. We want to dynamically expand our capitalist export the basis for which is created by increasing our competitiveness.

And as far as the nearest tasks are concerned: in general the times when the economy is seeking its paths are fertile soils for organizational innovation. When capital is in short supply and raw material is expensive, it is cheapest to renew the organization. Therefore the organizational changes must be accelerated because this may help the economic development. We are therefore encouraging the introduction of new organizational formats the spreading of which is urged also by the economic management. We are setting up small enterprises and subsidiaries which can effectively help accelerate innovation. And this becomes the most easily available tool today--the implementation of our strategy.

Naturally the regulation influences the method and time of implementing the strategy. But the relationship is exactly the reverse--a well-thought-out

strategy is the most efficient and fastest way to adjust to the constant change in regulation. And under difficult and unfavorable economic conditions developing the correct strategy can decide the fate of the enterprise. Strategy is management's compass. The more difficult, the more complicated it is to orient ourselves in the rapidly changing environment, the more indispensable it becomes.

8584
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DRIVERS FILL TANKS FROM CHEAP HOUSEHOLD FUEL PUMPS

Budapest MAGYAR HIRLAP in Hungarian 9 Aug 84 p 7

[Article by Andras Banki: "Oil Tricks: Million Forints Annually--Will There Be a Uniform Price?"]

> [Text] Our national economy suffers, according to conservative estimates, annual losses of at least 600 million forints due to speculation made possible by the difference between prices of diesel fuel and household fuel oil. The steps necessary to resolve this anomaly and eliminate manipulations can be expected to be taken.

I could not believe my eyes when I first saw it. A diesel Mercedes parked in front of a gas station, the owner got out, took out two canisters from the trunk, filled them up with household heating fuel, paid, returned to his car and poured the fuel into the tank. He packed up, wiped his hands, got into the car and left...

Everybody can find the explanation for this occurrence; it is enough to look at fuel prices. Of course it is also necessary to know that HTO (household fuel oil) and diesel are one and the same in terms of chemical composition and are kept in the same containers at the filling stations. The only difference is in price. That is why buyers are served from different pumps. There is just one thing the gasoline station workers are unable to do--they cannot fill the vehicle's tanks directly from household fuel pumps. Back to our story: the owner of the diesel Mercedes, assuming fifty liters were purchased, made 225 forints at one blow by filling up with state-subsidized household fuel. Of course many forms of tricks and combinations have arisen as a result of price differences in which--because of mutual back-scratching--the filling station workers are also interested.

Legends

According to checks and investigations--in which the Central People's Control Committee has also become involved--our national economy sustains annual loses of at least 600 million forints as a result of fuel speculators;

in other words, the manipulators earn illegal incomes of this size. In this amount the profit of our diesel fuel car owners is practically insignificant. Much larger quantities of money go into the pockets of foreign truck drivers and collaborating filling station workers. In theory truck drivers purchase diesel fuel in our filling stations--for twenty forints per liter--by buying coupons which have to be purchased for hard currency. But the majority of them who count on Hungarian filling station workers, do not have the slightest intention of getting the coupons. To tell the truth, they do not have to worry too much about checks. If somebody asks why they do not buy coupons, no doubt the answer would be that they are just passing through Hungary and the amount of diesel in their tanks is sufficient. (In some foreign countries the level of fuel in tanks is checked at the border. The drivers are asked to give their route, where they will leave the country and on the basis of this information, the specific consumption of fuel is predicted, marked in their travel documents, and the trucks are checked again upon leaving the country).

In certain circles legends spread about blackmarketeering with truck drivers. I myself also heard of this case: For greater security--to avoid making shady deals under the public eye at the filling station--middlemen are taken into the business. For example, expediters who travel in trucks with larger tanks, buy HTO fuel flourishing fictitious orders. They take away the fuel and the filling station employees send the truck drivers to them. Everybody shares in the profit--mostly in hard currency.

It is not just the difference between household fuel and diesel which creates the conditions for speculation, but also the fact that household fuel costs significantly more to public consumers than to private persons. Investigations have shown that private individuals and agricultural producers' cooperatives unlawfully purchase household fuel for production purposes. It is also not rare that enterprises which belong to the socialist sector--state and cooperative--pass on some of their energy-intensive production processes to private businesses with which they stay in regular contact where, also unlawfully, the household fuel is used.

Alternatives

Many people--both individuals and organizations--have already been caught in the net of tightening inner and exterior controls, but it is now clearer than day that the situation must also be changed in other ways. This problem has already engaged the attention of the authorities and institutions in charge for a long time. What kind of alternatives can be implemented? It seems obvious: the prices of the oils must be unified. Yes, but at which price level? If, for example, we agree on the diesel fuel price, in what way can we compensate people who heat their homes with household fuel oil? What would happen, if we dropped to the price of household fuel oil in commercial trade? Then the question would arise of how to collect the reimbursement from public household fuel

oil users and how much higher the tax on diesel cars should be raised. Some have also wondered whether it would be possible to differentiate the two fuels on the market using laboratory methods. Should household fuel oil be colored again and simultaneously should road checks be tightened to see whether the fuel in the car's tank is really diesel? Here and there somebody raises the question: could we work out a chemical process which would make household fuel useless as a fuel for automobiles while preserving its heating quality?

And finally, an administrative--although very bureaucratic--way, people purchasing household fuel in marked filling stations should receive certain documents.

Ever so many open questions--a decision is expected in the near future.

Journalists are not very popular in the area of filling stations and auto services...It is true that in the 1970s, in the times of unbelievable growth in this profession, people employed here became a target for charges, accusations and jokes. Of course not without reason. Because the speculation uncovered by the press and the direct experiences of customers undermined the good name of this profession. Not to mention that incomes were said to be in five figures which by itself is enough to raise suspicion and antipathy in our country. But the arrow of anger often missed the target, the scandals which were connected with one place and name were taken as universal. This primarily hurt the feelings and damaged the pride of those--and this is a majority--who avoided the suspicious business. Thus, not surprisingly, the reflex not to trust when queried about one's work and experiences began to function in filling station workers. I myself am not surprised that every conversation begins with the conditions: Names shall not be written and amounts of money shall not be mentioned...

Of course, I do not want to sympathize with filling stations workers--although nobody would enjoy their working conditions--they do not feel sorry for themselves. The proof is: filling stations never lack for workers. But it is also true that steadily increasing prices of gasoline have completely taken away the will of car owners to tip and the elimination of gasoline coupons--outsiders support this, of course--has taken an average worker's salary out of their pockets. These were great changes, but one thing has not changed: the average monthly salary of filling station workers is still 2200 forints.

Fuel Prices (per liter)

HOUSEHOLD FUEL OIL

Private consumers	4.80 forints
Industrial and other public consumers	10.60 forints

DIESEL

Domestic vehicle owners	9.30 forints
Users of trucks arriving from abroad	20.00 forints

12647
CSO: 2500/565

BARCIKOWSKI REVIEWS RECORD OF 1984 CEMA SUMMIT

Warsaw ZYCIE PARTII in Polish No 16, 1 Aug 84 pp 6-7

[Interview with Kazimierz Barcikowski, PZPR Politburo member and Central Committee secretary, by Andrzej Wisniewski; date and place not specified]

[Text] On 12-14 June, this year, the leaders of the fraternal communist and workers' parties, heads of governments and other members of the party and state leadership of the CEMA member states, met in Moscow for a summit economic meeting. At the end of the 3-day conference they issued a Joint Communique and adopted the following documents: "Statement on Fundamental Directions of Further Development and Expansion of Cooperation in Economy, Science and Technology Among CEMA Members," and a declaration entitled "Maintenance of Peace and International Economic Cooperation."

Question: The top-level conference of the CEMA member states, held in Moscow recently, has drawn big public interest in Poland, which is certainly due to a growing awareness of how important cooperation within the CEMA is for our economy. But it certainly is also owed to the fact that a conference at this level had not been held in 15 years. Hence the question about how true it is to believe that some special causes had necessitated the summit?

Answer: Nothing had happened overnight, and the causes about which you are asking are plain enough. I expect that everyone is aware of how deep changes have taken place in the international atmosphere and political situation of the world, and that the imperialist quarters of capitalism in recent years have set back the possibilities for detente policy and cooperation between countries having different social and political systems. On the heels of a tide of conservatism in Western countries comes a policy course designed to harden the approach to the socialist camp and to whip up armaments at the expense of detente. We are dealing with economic restrictions in place of economic ties which appeared to sprout at one time.

Of course, the Reagan administration leads the field in furnishing such new facts, but let us not delude ourselves that it is Reagan himself who is mapping out and implementing that policy. He falls back on American conservatism and nationalism which finds allies also in Europe. This phenomenon must not be treated as incidental. This is a tendency certain to endure for some time and have a direct impact on world affairs. Its object is to raise stumbling blocks to development of the socialist countries, wrest out, if

possible, individual socialist countries from the camp and to stop socialism, if it no longer can be destroyed.

Look what happened recently. First comes the issue of armaments. Armaments are not only a military threat, but also compelling the socialist camp to appropriate a larger share of the national income to defense. This aspect of armaments is obvious to politicians, although not so obvious to the public in Poland. Anyway, none of the Western leaders is trying to keep it secret today. Armaments are supposed to siphon off a part of the government spending that would otherwise go into developing civilian economy. They are thus expected to retrench the consumer share of the pie and, consequently, complicate the social situation in the socialist countries, eventually to destabilize them from within.

Another issue is economic restrictions, which are no one-time episode. They mark a return to the old method of exploiting economic relations for political pressure, for influencing the political situation in respective socialist countries, the particularly hardhitting restrictions applied against Poland are a part of broader phenomena. We actually witnessed an attempt to use "a credit bomb" against all socialist countries. All of these countries have been excluded from the world credit flow and compelled to increase their payments, etc. The socialist countries have coped with it, but, no doubt, at the expense of internal limitations.

The restrictions have also affected exchanges in technology and science. The gross outcrop of that policy was the blockade of the Siberian gas pipeline project. That was followed by an extension of the embargo to the supplies of new technologies to the socialist countries. This happened already before, but now the restrictions are undisguised and official, while before they were secretly intentional. This is true, because the economic relations between the socialist and capitalist countries have never been quite appropriate, with the socialist countries always being the target of one or another kind of chicanery. However, the intensification of such phenomena in recent years produces a new quality and poses new problems before the socialist economies.

Question: We know from the summit documents that the participants, clearly aware of all external circumstances, devoted plenty of their attention to the changing conditions of growth within the CEMA itself. What problems come to the fore in this respect?

Answer: The changes taking place here are reflected in a slower economic growth in the CEMA countries over recent years. All of these countries, except Poland, have registered production growths, but they are undoubtedly lower than in the preceding quinquennium. Naturally, our camp cannot treat it as normal. It must look for the causes and find ways out of this situation. Speaking of the causes, first of all the CEMA countries feel the pinch of depleted workforce resources. In all European countries, the workforce increments are virtually more than modest. Another problem is the depletion of easily accessible primary material resources and the necessity of winning raw materials under more and more difficult conditions and thus at a growing cost.

The intensification of economy is a highly figuring issue for our camp. Many opinions voiced about the Polish economic reform fail to allow for the fact that there is no socialist country today which would not be looking for better ways of running its economy. Poland is no exception, though we have taken some specific measures. But the search for new, better methods of economic management is now the rule in all of the socialist countries. The issue of intensifying the economy is of primary importance.

Finally, there is the issue of the CEMA itself. We appreciate the organization's large and important achievements, but we don't think that it has used up all possibilities for cooperation on a bloc-wide basis, nor even in bilateral ties between socialist partners. We must look for new ways of cooperation, all the more so as we can see today more clearly than ever before that we are arriving in our mutual relations to a point at which it is possible only on a community-wide basis to resolve problems of fundamental importance to development, such as raw materials. Hence the Moscow conference laid so much emphasis on the need to overhaul and intensify our cooperation. All in all, what I have just said explains the need for holding the conference and why it was so significant.

Question: Let us pass on to the course the decisions that the conference had adopted. Did any signs of conflicting interests come to light during it?

Answer: No, none. The conference had been prepared long in advance. Its documents had also been drafted earlier and then adopted unanimously. This is not to mean that there was no discussion in preparing the summit. Just as an example, all CEMA members had put 270 amendments to the initial draft of the final "statement," which were subsequently processed during several sessions of the working group. I have mentioned this, because in general the Polish public has a distorted picture of relations in international socialist organizations. It believes that there is no discussion there. On the contrary, there is discussion.

It is obvious that where a number of partners are involved there are differences of standpoints and issues have to be debated. Note how sharply and loudly they quarrel in the EEC.

Question: Certainly, intentions alone are not enough. Are any institutional forms of such activity expected?

Answer: With this object in mind, the decision has been made that the first secretaries of Central Committees will meet at least once in 5 years to tackle issues of economic cooperation. If need be, they will meet more frequently. Under another decision, the Central Committees' secretaries for economic affairs will meet at least once a year. However, it was stressed during the summit that major problems will have to be ironed out on an intergovernmental basis, while the communist parties will go into action in as much as their influence on decision-making by state bodies is necessary. The CEMA members also agreed on a different arrangement of the CEMA Secretariat and a different arrangement of commissions, to equip lower bodies with more executive powers. This is more than a reshuffle of officials.

Question: Let us elaborate on the substance of issues taken up by the conference. What were the chief of them?

Answer: I wish to emphasize with all might that our community's position on peace and disarmament is a front-running issue. The conference centered around economic questions, but the issues of peace and disarmament also found their reflection in it, because this is a struggle not only for security, but for insuring to ourselves the right conditions for economic growth. It is also a struggle for good proportions in the division of the national income between the cost of security and the cost of economic development. The conference confirmed the positions presented the meetings held earlier within the Warsaw Treaty framework, both the meetings of the pact's chief (consultative political) committee and of ministers for foreign affairs. The conference gave support to the Soviet initiatives towards peace and disarmament.

Another issue given stronger emphasis than in the past is one of arriving at economic policy decisions within the CEMA. The situation that I have already mentioned, for example, the difficulty in supplying the demand for raw materials makes the coordination of long-term plans between our countries more important than ever before. Things are similar in connection with the development of economic relations with the capitalist countries, which today follow a coordinated economic, credit and license policy line vis-a-vis the socialist bloc. We also have to coordinate accordingly. Recent decisions on the CEMA policy envision setting up joint economic organizations, industrial enterprises and ventures that would go beyond the government framework. Finally, a major matter tackled by the conference were the principles for price planning in trade within the Comecon.

Next, the CEMA partners addressed themselves to a whole complex of problems related to raw materials and energy. This concerned both the definition of economic principles for acquiring raw materials and a more economical use of raw materials by all countries. All of us hear the fortifying news about the great discoveries of crude oil or natural gas in Siberia, but we also have got to realize the cost of the whole infrastructure that would have to be brought into that area to enable an exploitation. The same applies to Poland's mining industry, which is compelled to dig deeper and deeper and incur the ineivtable costs of it. The Comecon members gave the final acceptance to the principle of joint investment projects to develop new sources of raw materials. Such projects have already been a practice.

I will not surprise anyone by repeating that the socialist countries use more primary materials and energy per unit of production than the nations excelling in technology. We are more wasteful and we will pay for it more and more, because primary materials are going up in price. Therefore, we must work out a compulsory mechanism for a better use of raw materials. We need to be aware of how urgent and serious this task is. We just cannot afford to wait it out, expecting that things will work out somehow of themselves.

Question: The development of advanced technologies offers a key to more effective uses of raw materials and energy today. How was this fact reflected in the work and decisions of the conference?

Answer: Ways of intensifying scientific research and developing new technologies came under major consideration. All participants concurred that the CEMA nations command a tremendous potential in their scientific centers, which, however, is far from being utilized with proper efficiency. Hence, they pointed to the need for expanding the organization of that potential on from-research-to-product basis within a single industrial enterprise, a basis which today is fairly widespread in novel areas of manufacture in capitalist and in many socialist countries. Our comrades in the GDR appear to have been the most consistent in applying this. We also did it in Poland at one time.

The task has arisen to catch up early to the world standard of industrial machinery, manufacturing technologies, production organizations and in areas which we regard today as the vehicles for progress and which consequently require a concentration of effort and a quantum leap in their development. I mean here especially electronics, robotics and biochemistry. The conference agreed that the Comecon nations would elaborate a joint program for long-term research and would pool their efforts to resolve the most pressing problems. Today, there can be no economic efficiency, nor a major breakthrough in productivity without scientific research and development of new technologies.

Question: Are we justified to assume that the sphere of industrial and technological development including its social effects will be a major arena of East-West rivalry in the age of the second industrial revolution?

Answer: Actually, this already is a fact with all its effects, including social, being evident. The whole meaning of the Moscow Conference boils down to answering the question of how we can propel technological progress in its broadest sense. This was one of the main topics of the conference.

Question: But the question also arises of whether the system of rewarding work in the socialist countries can trigger off a spirit of innovation at a suitable rate?

Answer: This is a very extensive and difficult problem. Whoever believes that it can be resolved with money alone, is wrong. But it cannot be resolved without money, either. What we also need here is aspirations of graduate engineers in the area ranging from research to the application of its effects. To this end we will have to bring about a reversal in thinking from the argument that nothing pays or is worth doing in Poland to the one that perhaps we would do something. This is one aspect of the problem.

Another aspect is long-term conceptual work on progress planning, project execution and project financing. Let me recall that we have already had in Poland very many ways of financing technological progress. Each of them had its merits and shortcomings, but I believe that the sheer lack of persistence was the most serious shortcoming of all. The moment someone ran into a snag, he suggested a change of the system, instead of thinking how to clear that hurdle. In effect one solution supplanted another, which was due to the peculiar belief that if we devised a system of incentives and pay, it would automatically solve for us our technological problems.

The inclination to thinking in terms of magic is a broader phenomenon in Poland. It is sharply evident in what is being said on the issue of employment. Today, there is an outcry everywhere that there will be no reaching of production targets unless there is more workforce, and what the government has to say to that. Last week I talked to the general manager of one of the steelworks. He was pleased, because he had bargained successfully for pay rises and now would be able to pay even several tens of thousand zlotys for some jobs. So he rejoiced, because he believed that now men would fill the vacancies. Well, he was wrong, because there are work stations in his steelworks where no one will agree to work even for 100,000 zlotys. Not only the amount of manpower changes. So do people's ideas about work, recreation, etc.

And besides, there is a physical shortage of manpower. We are coping and we will have to cope for a long time with fractional workforce increases. Therefore, the sooner we conclude that we must use labor differently, the sooner we learn to deploy people in production, the sooner we stop telling one another fairytales about employment. I could tell you funny yarns about the attitudes that one comes across in Poland towards robotics in economy. And this happens in Poland where every manager exclaims that he is short of hands. For example, it follows from a recent questionnaire that the whole Polish industry will need 700 robots by the year 1990. Meanwhile, several thousand robots are installed in the GDR every year.

This reveals the peculiar Polish grasp of the manpower problem. If someone believes consciousness to be immaterial to the economic life then this is the example to tell him what consciousness, the ability to think into the future, means.

Question: How directly did the conference and its decisions refer to Poland?

Answer: The general lines of development adopted by the conference are compatible with the work that we have been doing in our economy. Without artificiality, these lines of development agree with the resolutions of the PZPR 9th Congress, because the awareness of what way we should go had come earlier. All CEMA members remember the Polish experience. We find evidence of this in those passages of the conference's documents which sound a warning against the danger of overrunning a certain ceiling of involvement in cooperation with capitalist nations.

Our debt today is even more evident than it looked in 1981, because the other socialist countries have substantially reduced their debt since that time and now have a better position on the credit market. Also another reflection comes to mind. Social passions in Poland have consumed plenty of energy, which always happens at the expense of something. And during the Comecon conference it became clear perhaps more than ever that in Poland it happened at the expense of energy needed for rational action. In the meantime, the others have moved forward in production, but also in new ideas. To conclude with, let me inform you that joint ventures will have to be accommodated by our quinquennium plan and will also affect our possibilities of investing in various economic areas.

One more word about the Polish delegation to the conference. The soviet comrades who hosted it took care that Poland, even in diplomatic protocol terms, should hold the place customarily due to it, that of the second-biggest country in the socialist community. This is important not just for the splendor of personages, but for building confidence in our party and state throughout the socialist camp. We have done much for Poland and not little politically for the entire community. This is perceived and appreciated. But diplomatic etiquette should mislead no one. We must realize that what will matter over the long run will be how reliable we are as a partner in economic scientific and cultural relations. To this end we will need to build in Poland the public confidence in cooperation within the CEMA, in cooperation with the Soviet Union.

CSO: 2600/1280

WAGE GOALS IN 1985 PLAN AT ODDS WITH DECENTRALIZED POLICIES

Warsaw ZYCIE GOSPODARCZE in Polish No 33, 12 Aug 84

[Article by Irena Dryll: "Draft 1985 Plan: Reining in the Wages"]

[Text] It has become clear at last that paying labor "in the old way" is not possible while paying "in the new way" very difficult. On the one hand, there is the restrictive influence of the old wage pattern, inherited from the past and still full of irritating disproportions, and on the other the economic disequilibrium and inflation. The so-called "zero option"--meaning an instantaneous switch to paying high for good work and low for poor work--is not feasible, in view of the concrete constraints and concrete opportunities facing the economy. This double burden of the past and the present is increasingly leaving its imprint on the pay system, which looks as if directed by a person who is both willing and apprehensive--drawing rein with one hand and freeing it with the other.

This is reflected in the current situation which looks rather paradoxical, at least at first sight. We want a reform of the pay system, and this is permitted under the 26 January 1984 law on enterprise wage systems, and at the same time, as provided in the draft plan for 1985, we have to lower the degree of remunerating labor-productivity increases.

This is because almost the whole increment in employment next year is to be absorbed outside the sphere of material production--mostly in health care and social welfare, and also in education and housing management. The increasing proportion of employment outside this sphere in total employment (the expected 21.9 percent in 1985, against 18.9 percent in 1979) is bound to affect the distribution of the overall wage fund. "The degree of remunerating labor-productivity growth in the sphere of material production," reads the proposed draft plan presented by the Planning Commission, "must be lowered in order to pay for the increase in the employment of educators, doctors, nurses, housing management employees, etc. This is an important constraint, influencing the proposed targets in the sphere of distribution."

More in the Pocketbook, Less in the Larder

This reasoning can hardly be questioned from the angle of distribution rules. More than that, one could easily adduce examples of existing disproportions.

As testified by the GUS report on the first half of this year, the average monthly pay in sectors of the material-production sphere amounted to Zl 16,300 against Zl 13,000 in sectors outside that sphere. It might be argued that these disproportions, having far-reaching adverse social consequences as they are, should be leveled off. But the assumption of lower remuneration of productivity growth should be subject, in the course of public consultation, to close scrutiny by economic "practicians" as well as theorists. This is for many reasons, known to specialists. Here, I want to focus on those reasons which lie within the reach of a journalist.

The first problem has to do with an honest computation--in breakdown by sector, subsector and factory--of the present degree of productivity growth remuneration, which seems to be highly diversified. Counting production growth in current prices and wage growth in its nominal expression, it appears that the former is remunerated at a pretty high level. And this way of computation will not be questioned from the point of view of equilibrium.

But when the problem is viewed from the motivational angle, some doubts do arise. This is also true when juxtaposing the increase in nominal wages with production growth at constant prices. All these computations should thus be complemented with a comparison of production growth at constant prices with real wages. There is a stunning discrepancy in the assessment of wage increases between the Center and the workforce. The former is inclined to treat any increase in wages as justified only by higher productivity, while the latter consider part of this increase as compensation for inflation.

"I work harder and have more money, but there is less and less in the larder." This is what Lodz spining-mill women workers are saying. It would be purposeful to draw a map of actual remuneration of actual increase in productivity. The problem lies not only in methodology. It also has sociopolitical aspects, as wages are a very delicate matter. As shown by fragmentaty estimates covering selected periods (e.g., the first half of this year) or selected branches of the economy (e.g. the cotton industry in that period), the degree of remunerating productivity growth is relatively low, between 0.3 and 0.4.

Mention should also be made of yet another element--the substantial drop in employment in the sphere of material production, as signaled in the draft plan for 1985 (by 645,000, or 6.6 percent, between 1979 and 1984). Also decreasing in that period was the working time in industry (by 14 percent), the number of shop-floor workers (by 11.5 percent), and the shift-work coefficient (from 1.46 to 1.30). Undermanning of existing workposts is on the rise, and so is sick-leave absence (which increased from 7.4 percent in January-April 1983 to 7.8 percent in the same period of 1984) and overtime work. The highest increase in the number of overtime man-hours (outside factories with continuous processes) was recorded in the chemical and light industries (46.5 percent) and in mining and energy (43.5 percent). The number of work-free Saturdays shrank in many light-industry factories to just one month.

When visiting factories which I remember from several years ago, I have had an impression that an ever smaller number of people are going around an

increasing number of machines, at a quickening pace. Work intensity and productivity, when seen from the standpoint of individual workers rather than the enterprise as a whole, has been growing in many branches and factories. Many enterprises have restored the precrisis level of production with much lower employment of shop-floor workers. And it may be recalled that the impetus to production recovery in many factories was given by higher remuneration of productivity increases. Ways of tying higher wages to growth in output and productivity have been urgently sought since the very beginning of reform in 1982. With all imperfections and weaknesses of these arrangements, the freedom of shaping wage funds, the abandonment of former methods of wage-fund planning, the measure of flexibility in shaping wage scales and job-evaluation rules permitted under the Council of Ministers' executive order 135, and even the much criticized order 186 introducing financial stimuli to production growth have all brought effects in the form of recovery in production. The free rein in remunerating productivity growth in the light industry (executive order 88) bore fruit in the form of higher supply of consumer goods--starting from the turn of 1983. And this is an industry seemingly devoid of human and material reserves. It is stated nowhere else than in the draft CAP that "capacity utilization in consumer-oriented industries is diversified, with the relatively lowest reserves in the light industry."

In a situation marked by often drastic labor shortages, growing disinvestment, and not-so-good supply of raw and intermediate materials (both as regards regularity and quality), the concrete level of productivity-growth remuneration brought about an increase in production--in this case, the consumer-market production. So a decision to weaken this stimulator next year should be thoroughly thrashed out. Even if it appears that there is no other way out, it should be specified in precisely which areas this is going to happen.

The requirement of lowering productivity-growth remuneration should have concrete addresses. Its generalization and application to the whole sphere of material production is not only dangerous in social and economic terms, but may also prove counterproductive by upsetting, rather than strengthening, the incipient signs of equilibrium--e.g. in effect of lower employment and output in consumer-oriented industries. This would be a proverbial case of pouring out the baby together with the bathwater.

This is all the more relevant as the problem of productivity is accorded key importance in the draft.

At this moment, there emerges another aspect of the problem. According to the draft plan, the physical volume of sales of manufactured goods and services is to grow next year by 4.2 percent, or Zl 410 billion. "This increase," reads the document, "should fully come as a result of higher productivity of labor, which will be supported by the launching of motivating pay systems at enterprises and by the latter's embarking on short-gestation, small-scale investment projects which make work easier."

Who Is Going To Put on the Brakes?

By the end of July, the Ministry of Labor, Wages and Social Affairs registered 173 enterprise wage systems, designed in accordance with the relevant Sejm law of January 1984. The group of wage leaders does not include dwarfs. It comprises big enterprises such as steelworks, shipyards, the Cegielski engineering complex of Poznan, or the PKP state railroad company with the workforce of 300,000. From the point of view of pay reform, this is encouraging. But when seen through the prism of the CAP proposals, the problem gives rise to mixed feelings.

In pure theory, the system of motivation has nothing in common with the inflow of money. In practice, however, all the enterprise pay systems so far have been based on the principle: the more of one thing, the more of another. The greater amount of work and the higher productivity have been paid with higher wages. In other words, when it comes to enterprises covered by the law on new wage systems the requirement of lowering the productivity-growth remuneration is not realistic. Wages at such enterprises will not go down, but actually are going to increase further--by several hundred or several thousand zlotys per employee. There can be no doubt about this. Planners are consoling themselves by saying that the new systems are unlikely to exert major impact on the overall pay situation, the more so as by the end of this year they are to be introduced in just 500 enterprises out of the total of several thousand (see the interview in ZYCIE GOSPODARCZE No 31, 1984). Given that these expectations prove correct, a question arises of whether it will be possible to generate the more than 4 percent increase in production exclusively by means of higher productivity (to be paid at lower rates) and small-scale projects improving working conditions. And conversely, supposing that enterprises switch en masse to the new wage systems, who and by what means will hamper the remuneration of growing productivity? Who is going to put on the brakes?

Or perhaps the reasoning should be turned the other way round, and production growth of more than 4 percent should be assumed, with productivity paid at slightly higher (rather than lower) rates? Let it be noted that the enterprises which want to pursue an active policy of wages, boost production and prevent outmigration of personnel are in a way doomed to the new wage rules. The opportunities offered by the existing regulations (e.g. the 1982 executive order No 135) have as a rule been tapped, and the official upper limit of hourly rate of Zl 40 is unlikely to stimulate anybody. Workforce pressure for higher pay is perceptible. Every reasonable director, if only in possession of some financial reserves, would oike to channel this pressure. While paying more, he would like to pay reasonably--in such a way as to insure a major increase in production and an improvement in the wage pattern. Since people want to earn more, they are looking for new opportunities--and these are provided by the new law on enterprise wage systems.

The process of socialization of the wage system, as reflected in the creation of enterprise-level arrangements and in negotiations between the enterprise and the overseeing and the labor ministries, is gathering steam. I don't think that the ground can be set for lower remuneration of productivity.

The process of socialization of the wage system, as reflected in the creation of enterprise-level arrangements and in negotiations between the enterprise and the overseeing and the labor ministries, is gathering steam. I don't think that the ground can be set for lower remuneration of productivity. Rather, there is every indication that the reverse is true. If the enterprise wage systems are designed correctly, they will link higher pay to better results of work, and primarily to higher, better and more needed production. If so, there is no need to fear this higher production, the more so as, by definition, the related increase in wages will be lower. This is what first vice chairman of the Planning Commission, Franciszek Kubiczek, said in the quoted interview.

The Dangerous Net Production Yardstick

In these circumstances, is there anything to be feared by enterprises?

At the June session of the Economic Reform Commission (ZYCIE GOSPODARCZE No 28, 1984), Minister Wladyslaw Baka voiced an opinion that the major problem to be solved in the field of new wage systems was the methodological imperfection of the net production yardstick. It needs an improvement, but it is still by far a better alternative to the gross yardstick (which incidentally, was applied in 1983 by 40 percent of enterprises).

It seems that the direction of this improvement is of importance for all enterprises, not only those introducing new pay systems. This was reflected in the heated discussion during the 6 June conference on the sold production measurement, organized by the Polish Economic Society and the Association of Accountants. The key to solving the problem, as opined by one speaker, Dr Zdzislaw Fedak, can only be a revision of the currently binding doctrine that the level of sold production determines virtually the whole increase in wages.

"There is no evidence to support the theory that any increase in nominal pay of the workforce, even as far as it compensates (even partially) for increased cost of living, should be contingent upon production growth. It is neither feasible nor logical. It is not feasible because, with the 1983 increase in costs of living by 22.3 percent and with the pay-increase coefficient of 0.5 [linking pay to production growth], the maintenance of the existing level of real wage would require a growth in production of the order of 40 percent. It is not logical because the chunk of increase in wages in the nature of cost-of-living supplement should be assigned in the form of an amount (so-called threshold) free from FAZ taxation and not linked to production growth. This, after all, should constitute a partial compensation for the real-wage losses."

One of the many conclusions formulated at the conference reads: "It is imperative that an instrument allowing for increase in costs of living be introduced into the present economic-financial mechanism--e.g. in the form of appropriate increases in the FAZ-free threshold."

The reason why I mention this cost-related aspect of the net production yardstick is that it brings us closer to the third question--that of the variants of population incomes and consumer-market situation next year.

Variant I, which in the opinion of the government satisfies the interests of the working people in the best way, provides for the population's real incomes, including wages, to be pegged in 1985 at this year's level. This would permit "for the first time in many years to balance the current inflow of purchasing power to the market with the flow of the goods and services supply. Under this variant, there would be no inflationary gap in 1985."

Variant II calls for a 1-1.5 percent increase in real wages and the continuation of inflationary gap. "Shopping problems and profiteering would be only slightly mitigated, rather than being grossly reduced, as provided for under Variant I."

Variant I, which may be referred to as the equilibrium variant, will certainly be hotly discussed in enterprise and trade-union forums. It raises a question of how to go on with the pay reform, which is necessary both for the people and the overall economic reform, while at the same time hampering the real increase in wages. How to prevent a lowering of the working people's standard of living without an automatic compensation (even a partial one) for increase in costs of living? Will the vision of a quiet consumer market be attractive and credible enough to keep in check the avalanche of pay demands? So far, the most effective way of channeling these demands has been offered by the new enterprises wage systems. But will there be enough room under Variant I for these systems, both those already existing and those planned for introduction?

In the opinion of Association Prof Zofia Jacukiewicz, the shortage of consumer goods and the danger of inflation have been affecting the wage policy almost throughout the whole post-war period. "But the danger of inflation lied primarily in the asphere of production, rather than distribution. It derived from the steady, even if slow, increase in the ratio of producer goods to consumer goods," she said at an April conference in Jablonna, sponsored by the Polish Academy of Sciences and the Institute of Labor and Social Affairs. A next question thus arises: will the distribution-oriented countermeasures against what ceased to be a "danger" and what became a fact of inflation prove harmless to production?

In other words the problem is whether to rein in the wages or give them a free hand, while not hampering the economic reform. In this field, it is no doubt much easier to pose questions than to answer them.

CSO: 2600/1280

FOREIGN TRADE MINISTER ON UNCERTAIN EXPORT SALES OUTLOOK

Warsaw ZYCIE GOSPODARCZE in Polish No 34, 19 Aug 84 pp 12-22

[Interview with Tadeusz Nestorowicz, minister of foreign trade, by Eugeniusz Mozejko; date and place not specified]

[Text] [Question] Mr Minister, we all are looking at foreign trade as at that link of the national economy on which much depends: the extent of utilizing Poland's manufacturing capacities, the economy's escape from crisis and conditions for stable economic growth. Obviously, you may say right away that foreign trade is a mirror image of the entire economy, and I virtually would not dispute it. Nevertheless, the nagging question is what the foreign trade sector has done for the remaining branches of the economy, and what it has failed to do?

[Answer] You said: "We all are looking at foreign trade" in this way. Maybe some people are, indeed, but not all. Anyway, I am glad when foreign trade is in the mass media spotlight, because this helps industrial workers and at least a part of society to understand that a nation of Poland's size and potential has to join in the international division of labor along a broader front. Poland has never had major export traditions to fall back on, and if now there is much talk about a foreign trade barrier, it means that more and more people are concerned.

And, indeed, the vital process is production, and I have in mind here everything which subsequently materializes in exports. On the other hand, I do not believe that we stumble on a trade barrier. After all, since crisis hit us hard, the export growth rates have overtaken production growth rates. Naturally, the growth rates will be decreasing, as simple reserves are running out. Our economy is import-intensive, even very much so, because of its present structure. We may be fretting about it and criticize it, but we cannot change it overnight.

[Question] This precisely explains why so special tasks rest with foreign trade which largely keeps production supplies going.

[Answer] Yes, and we cannot change it over a short period of time. The very import-intensive structure of the economy developed in the 1970's and we used to supply our import needs largely through credits. Now our Western credit pipeline has virtually run dry, raising the danger that we may not be

able to supply industry with all it needs. On the one hand, we are already close to hitting the 1979 mark in our exports.

[Question] But not in all directions....

[Answer] Not in all directions and not in all branches, but overall we are close to it. On the other hand, we have had to slash our imports from capitalist nations by 45 percent, which cannot but ripple adversely on production supplies. We have managed to partly offset this by buying more from socialist nations. A process of working the Polish economy into a system of expanded import-export relations with the other socialist countries is underway. So it is true that given the current level of our sales, supplies may be running short in some fields. I do not expect this to take an acute form this year, unless the exports collapse, but the possibility is there.

[Question] There is no way to overlook how, since the year's start, the Polish foreign trade effects have lagged markedly behind the plan in both ways--exports and imports--with the delays in imports being even larger.

[Answer] Last June we registered a marked improvement on the time scale of implementing the plan. Comparing with the trade outlook at the end of May, the lag in our sales to the nonconvertible currency zone decreased from nearly 4 percentage points to slightly upward of 2 percentage points, while the lag in our exports to the convertible currency zone decreased from 6 to 5 percentage points. We really have more slack-up in imports from both zones, but not in absolute terms.

However, one cannot size up the effects of foreign trade only in how they go into implementing the plan. One also has to compare oneself to the others. The growth rate is important. Over the first 6 months of this year our exports at constant prices grew by almost 10 percent and imports by 8 percent. Thus the growth rate of the exports was more than twice the growth of industrial production volume. Both in world trade and among our socialist partners these effects are quite good, although we realize that our foreign trade turnovers per capita are low.

Considering the absence of credit sources and our practically go-it-alone performance, a rapid resurgence of our industrial production to the level recorded just before the breakdown should be seen as a great achievement. This is a success for the whole economy. There are economic sectors which have weathered the crisis ordeal. Owing to this we are regaining the confidence of our foreign partners. Still back in 1982 they demanded government guarantees prior to signing contracts with our firms, because they simply did not believe in their capabilities.

We are facing difficult problems of workforce and supplies. There is an important problem of product quality where not always the highest world standard is the case. One can also sell average-quality products at a respective price, but it always must correspond to the standards specified in a contract. There must be no deviations. These are matters calling for close attention, all the more so as by the end of this year or early next

year the simple reserves which we have tapped so far to develop exports will have run out. Besides, we are still challenged by an imbalanced domestic market whose competition against exports is very strong. So what comes next?

[Question] This exactly is the question that I have come to ask you, Mr Minister.

[Answer] Well, there will be no measures with immediate effects. This is so, because the economy's structure and its export profile both toward socialist and capitalist nations is what it is, with the requirements posed by both sides growing. However, in the next quinquennium we will be trying hard to put the economy on an exporting track with the resources available to us. This view is shared also by the chairman of the Government Planning Commission. It will be a difficult job. We are short of investment funds and we are short of credits because of the Western restrictions. Thus the outlook for the future is not clear, but our work on these problems is at an advanced stage, with academics and practicians taking part.

It is necessary to realize that resolving these problems will take time, years.... But it seems to me that also over a short period of time it will be possible to usher in a degree of modernization, to update some branches of production and focus the attention of producers and exporters on quality standards. Generally, however, we are not in for a leap. Our experience tells us that leaps are not possible in the economy. We need persistent, down-to-earth work on the part of the manufacturing and foreign trade sectors. It is imperative to bring Poland in world markets systematically, even if slowly.

And one more remark at this point. At so drastic import cuts, the readaptive capability of our economy, production increments and supplies for the domestic market are very big.

[Question] I agree that foreign trade has notable successes to its credit.... I think that the most important of them consisted in keeping the imported production supplies at a higher level than would have followed from the overall drop of supplies from the West.

[Answer] Rather it is the economy which claims the credit by being able to readjust to the limited sources of supply.

[Question] Your ministry can claim the credit for shaping the structure of imports. But as we look into the future, we can hardly fail to see serious problems you are facing. This is how I would list them. In our relations with socialist partners there is a growing need to expand capital equipment imports. After all, the economy has been working at minimum capital equipment supplies and is bound to increasingly feel the pinch of their shortage. Actually, the growth of demand for capital goods from socialist countries is already noticeable. Another problem is to use up every possibility to buy from them fuels, raw and intermediate materials, in short everything which improves production supplies. But it appears that these possibilities have been largely drained, and a major rise in supplies will be hard to come by. Our partners make it

clear that it will depend on whether we can supply them with equivalent commodities which are equally important for their economies. This shows how necessary it is to draw up a program to shape the structure of exports and export-led production accordingly.

Finally, we are facing repayment of the credits which we have taken up over recent years, especially from the Soviet Union. I believe that this should find its reflection in some programmatic concepts which would indicate how we are going to resolve these problems in the long run.

We apparently should approach our relations with developing nations in a similar way. I have read recently that the Government Presidium has approved a program to develop cooperation with that group of countries, but I do not know any deatils. Maybe you could elaborate on this.

Our relations with Western nations pose a difficult problem at present, with political factors and our debt playing a relevant role. But a long-range approach is also needed to our relations with those countries.

[Answer] That is right. These are three groups of the most important problems. Naturally, we will have to take them into account in devising the forthcoming quinquennium plan: in our turnovers, level of exports, and import capability of our economy.

We have more progress in our relations with the other socialist countries. We have a program for expanding relations with the Soviet Union until the year 1990. Here we know what is in store for us, when we will have to start repaying our liabilities and, most importantly, we have information about the level of raw material supplies. All that has been worked out by the Planning Commission with our participation. We realize that the term "program for economic cooperation" covers a much broader sphere of issues than mutual trade exchanges alone.

[Question] For a longer time now we have used the term "reorientation," but I think we still do not realize clearly enough what is behind this term. Personally, I have the impression that the reorientation process has been quite erratic so far. It has been sparked by situations rather than programmatic principles.

[Answer] Certain erratic elements appeared at the beginning in conection with the Western restrictions, but I would not agree with your claim that we have no program. Maybe our actions were tailored to short-term considerations in 1981 when the Soviet Union was bailing us out, maybe they were still stopgaps in 1982 when the other socialist partners also lent us a degree of assistance. However, the provisions for cooperation in the years 1983 and 1984 were the effect of our premeditated approach. The talks that have been under way for some time now are marked by an even more systematic approach. In some branches of cooperation we have drawn up long-range plans looking ahead even to the year 2000.

Thus I do not share your claim that we have no well-considered concept for the development of our relations with socialist countries. We have such a concept. It still requires more work, but I think it will be ready right in time to put all relevant decisions in the upcoming 5-year plan.

Now about our ties with developing nations. The respective provisions endorsed by the Government Presidium are already being carried into effect. Our general intention is to spin new life into direct trade ties, to phase out intermediate links which have played a major role in the past. We are already well on the way to staging full comebacks to the markets of Latin America, and some African and Asian nations. Your readers can easily find out how intensive our meetings with representatives of developing nations have been. When times were hard for us, those countries were always keen to preserve their ties with Poland.

[Question] Political relations with that group of countries are good and reverberating well also on economic relations. But in dealing with Third World nations one often has to apply certain specific forms of cooperation, pursue a more active credit policy, arrange for countertrade, etc.

[Answer] We use all available forms--barter and tie-in deals alike. We promote relations with those countries in many ways. The modified incentive system introduced on 30 March in Poland also has a built-in mechanism to encourage exports to developing nations. Of course, there are certain objective limitations. At our level of development and with our possibilities, we cannot grant excessively "long-term" credits, but we recognize the legitimate requirements posed by developing countries toward complete plant and processed commodities they import. We simply have to meet them, as our competitors do.

Generally, we keep our accounts with developing nations in convertible currencies. But we have also found other flexible forms which enable both us and our partners to live through crisis without an adverse impact on the level of two-way trade.

What I have said above concerns trade promotion. Whether the possibilities are used will ultimately depend on the export capability of Polish industry.

[Question] However, we sometimes hear complaints from producers that even when they have found a possibility for export to a developing country, a barter deal is hard to arrange.

[Answer] Obviously, there are certain priorities in imports. Although we could say that we are in need of everything at present, the needs are subject to a scale of importance. Nevertheless, we also take account of our partners' needs. We understand why developing nations cannot export raw materials alone, and offer us also goods at a higher degree of processing. We see to it that commodities having a further priority are also covered by barter deals. Certainly, there are such possibilities.

We expect some Third World countries to buy more capital equipment from Poland partly in return for various commodities. One example: If someone

wants to buy a power station and is prepared to pay for it in part with grain, in part with cotton and in part with other commodities, he can do it.

In conclusion, I wish to reiterate that conditions favoring the expansion of our economic relations with developing nations have been created.

Our relations with developed Western countries are really a difficult problem. They are keeping up the barrier of restrictions. We have a huge debt....

[Question] And it is at least for this reason, though not only, that we have to try and expand our economic relations with the West.

[Answer] And we are trying to expand them. The assumptions are to maintain an active balance of our trade. But the effects also depend on what attitude the individual Western partners have to economic cooperation with Poland. Naturally, our relations with the group of those countries which are less inclined to apply political pressure will be developing better.

[Question] However, one reason for concern is that Poland's surplus in trade with those countries is achieved at the expense of a major reduction of our imports, while these should be maintained at some indispensable level. The only way to this end is an expansion of exports. But it is impossible to expand exports of raw materials alone. Of particular concern here is the poor progress of engineering exports. If we count it in dollars, we find out that we not only fail to chalk up an increase in the volume of these exports to Western markets, but we are in for a decrease, however slight, but still a decrease.

[Answer] Let me make an important correction of this evaluation. We are used to watching exports in the light of two merchandise groups: Engineering products on the one hand, and the "remainder" on the other hand, with the "remainder" being popularly associated with nonprocessed commodities. Meanwhile, this is not actually the case. Besides, I am against any generalizations which often lead to wrong conclusions. They say that the exports of engineering products are falling, but this is not true of all industries counted in this group. There are engineering branches whose exports are growing. There are growing exports of mining-machinery, power-generating, metallurgical and foundry equipment, of a whole large group of electrical engineering and electronic products. Of course, there are branches which have registered a decline in exports.

[Question] Regrettably, the mean resultant is a decline, not a growth.

[Answer] A mean effect does not always reflect the essence of a problem. Besides, this does not involve only engineering. The "remainder" group also boasts of highly-processed products whose exports are very profitable. Let us take processed foodstuffs or processed timber products whose share in overall exports is enlarging. Let us take glassware. During the Poznan International Fair our glassware industry impressed me with the wide range of its offer. Also faience and china are all processed merchandise. Besides, even Sweden is exporting iron ores apart from its famous steel.

[Question] If, however, we look at our export to Western countries in recent years, not months, we get a clear picture of what had been the basis of its growth: coal and other low-processed commodities.

[Answer] Of course, coal. But not only coal. The sales of engineering products to Western markets earn Poland 1.5 billion dollars a year. This is not a trifle. Should the Polish shipyards be able to execute their contractual obligations toward Western partners, we would have record-high exports. Hence it is a gross oversimplification to say that our engineering exports are "breaking down." All right, they are breaking down in the auto industry, in bearings--due to the rise of national demand, and there are difficulties in construction machine sales, but not because of our industrial problems as rather because of the problems in finding outlets which are simply due to worldwide crisis. For I believe that crisis in world economy is still going on. Signs of recovery have not yet found their way to investing. There is a boomlet on consumer markets, in so-called "white" technology components, etc. Here there are no such problems.

[Question] I see that you, Mr Minister, categorically reject the opinion that there is a breakdown in Poland's engineering exports. Do you believe, then, that the outlook here is quite good, or that it is not so bad?

[Answer] It is not so bad. Please note that within the production that we conventionally describe as engineering there are branches readjusting fast to the present difficult conditions and they have lost nothing of their drive. There are also branches which fail. Moreover, confining the scope of this problem either to raw materials or engineering products is wrong, because, as I have said, there also are other industries exporting final products. After all, frozen strawberries or furniture are final products as well. Maybe the public is not favorably disposed to it, but furniture exports also pave the way for an expansion of production for the domestic market. All furniture factories have 50 percent export revenue allowances enabling them to finance the indispensable imports also in production for the domestic market.

Thus there are branches, which are expanding well, and there are some, which experience problems, though not everything can be blamed on objective difficulties. Dedication on the part of producers and personnel is very important.

[Question] But does the present foreign trade system sufficiently stimulate the producers and personnel?

[Answer] There are industrial enterprises critical of the system, but there also are others, which are quite satisfied with it.

[Question] But as far as I know, a majority of them are critical, or at least they argue that the incentives designed to stimulate export-led production are hardly felt, except for the export revenue allowance.

[Answer] A majority? I would not say that. There are producers exporting semifinished products which are needed in Poland. But if you try to block

these exports, which ostensibly are unprofitable, the producers will immediately demand: please refund us the difference between the price current in foreign trade and our producer price, please refund us the tax and grant an export revenue allowance. Of course the export revenue allowance is the strongest incentive, but the other ones are equally strong.

[Question] This view is not shared by a majority of producers.

[Answer] I cannot agree with the claim that the attitude held by a majority of enterprises is negative. Maybe this is true of a majority of light industry producers. Please note the situation prevailing on the green (fruit and vegetable) market, which is balanced. Note the drive demonstrated by the exporters, how they fall head over heels to gain new markets and how they compete between themselves, sometimes in the bad sense of the word, to bring down, instead of bringing up, the overall level of export prices. We counteract such negative phenomena.

[Question] Not infrequently we come across an enterprise which exports only to get an export revenue allowance. And it exports only as much as is required to get it.

[Answer] We do. I myself even know enterprise managers who say: "You know, Mr Minister, we will be exporting only until the mid-term of the year, because it will earn us just enough funds for our immediate needs." So I ask them: "Where will you get the funds for retooling from?" They reply: "We will think of it, but not yet during this year, because production for the domestic market pays better." This reflects the old truth: a producer can gain a higher profit by selling its merchandise on the domestic market with which it is sometimes hopeless to compete.

[Question] Even the comparatively effective system of export revenue allowance is not devoid of defects. For example, it is blamed for being of a discretionary nature. The very principle under which such allowances are granted is controversial. Once granted, an export revenue allowance does not encourage producers to rely less on imports.

[Answer] An export revenue allowance does not sanction a producer to be less import-extensive. A producer can use the allowance to finance modernization investments, and the less import-intensive its production is, the greater part of its revenues it will have available to this end. I am not saying that the system does not call for improvements. The problem is whether we can define it in parameters. If we can, we will be ready to introduce appropriate changes as of January, 1986. In fact, we have made an attempt to arrange the incentives parametrically. But we cannot apply parameters to everything. Every system has it that those who find its parameters beneficial are not eager to publicize it, while the others complain loudly.

Maybe there are enterprises, which, as you say, do not feel the incentives and do not get any benefits from export per one employee. But we had already allowed for this in the new regulations of 30 March. For example, we have upgraded the incentive role played by bonuses and task-oriented contracts.

Also since 30 March we have been granting tax concessions for enterprises which invest with a view to exports. We combine this with a different division of the depreciation allowance between the enterprise and the state. But it will take time to see the effects.

[Question] There are reasons for doubts as to whether it will work, because there are producers who would not even avail themselves of a hard currency credit to develop their export capacities, either because the interest is too high, or because they find exports unprofitable.

[Answer] Various cases are possible. I know, for example, that various horticultural enterprises are pressing hard for the imports of equipment. This example demonstrates that if the competition on the domestic market is smaller and if a producer has to export to stay afloat, a spirit of entrepreneurship comes into play.

[Question] Just how weak are the Polish producers' ties with foreign markets can be seen also in the area of foreign trade licenses. Quite many enterprises have been licensed to do business independently, but their share in the total foreign trade is very insignificant, and few producers apply for such a license.

[Answer] Autonomous operation on a foreign market is not an easy job. It calls for a preparation, work and time. It also means additional costs and not every producer finds it profitable. Sometimes they prefer to use services of a specialized foreign trade agency. But large firms, such as Cegielski can and should operate independently.

[Question] There are also snags in the way of the freedom to choose an intermediary in foreign trade....

[Answer] The freedom to choose an intermediary is guaranteed, but the preparation of suitable conditions allowing full use of this right also takes time. The freedom of choice is practically limited by an agency's ability to deal in a given market, but its cadres and the extent of its technological knowledge. This is no short-term operation.

[Question] We often hear how producers complain that they have merchandise, but they cannot find a foreign trade agency which could sell it.

[Answer] Of course, it is more convenient to claim that someone else cannot sell than to try and sell by oneself. If foreign trade companies do not file requests for a given commodity which its producer believes can be sold abroad, let the producer itself apply for a foreign trade license. Under such circumstances it may get it even in less than 90 days.

[Question] Mr Minister, the task group No VIII of the Commission for Economic Reform has come up for a basic strengthening of economic instruments stimulating enterprises to produce for export. What does the Foreign Trade Ministry and you as its chief think of it?

[Answer] It is indisputable: Poland must join in the international division of labor along a broader front. The basic limiting factor here is the size of

the national income and proportions of dividing it. We realize that in the years ahead we will have to produce more and consume less, because, first of all, we have to service the debt. Moreover, we have to step up our efforts to restructure the economy with a view to, among other aims, our active share in international trade. This also is a costly process. Work on the plan for the forthcoming quinquennium is already well advanced, but we know already now that we will not be able to achieve a major breakthrough in the coming 5-year period. All we will be able to afford will be what I would call trimming measures. We can do something without investments, by streamlining organization and a firm approach to quality. This may help us to put more life into exports, which in turn will facilitate greater structural changes in the future. Industrial enterprises must both be under influence of the central authorities and have room for autonomous action. They should have an interest in ventures which are compatible with the general economic objectives. They already enjoy concessions, if they invest in export-led lines of production. They can use a part of their depreciation allowance to this end. We will assist strong, initiative-minded enterprises in small-scale modernization. Personally, I favor marking off the revenues from exports in the financial performance reports made by enterprises. This is not in line with some ideal model of reform, but we have to choose. If the prevailing belief is that pro-export incentives have little impact on producers, one has to switch to a system which will reinforce them. The administrative personnel in industrial enterprises in general understands the need for expanding exports. The important thing is to make workers understand it as well.

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NATIONAL POWER GRID CHIEF VIEWS WINTER ENERGY DEMAND

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[Interview with Jerzy Bekker, director of the State Electricity Distribution Center (PDM), by Krzystyna Karwicka-Rychlewicz; date and place not specified]

[Text] [Question] We all still remember the PDM communiques introducing Grade 20 in the availability of electricity, which spelled problems and drama to industries and institutions. The radio still broadcasts daily PDM communi-] ques, but fortunately it is usually Grade 10 these days. Are such communiques at all necessary then?

[Answer] Grade 10 of availability means that cuts in the supply of electric energy cannot be ruled out. The cuts begin with Grade 11. But it is true that the daily PDM communique is nowadays treated more like an appeal to consciences and a reminder that electric energy is not a commodity that can be had in unlimited quantities at any time. Besides, the age of fuel surpluses that occurred in 1982-83 is ending and we must be prepared that the coming months will not be so easy.

[Question] Does the appeal meet with any response? Can we be assured that Grade 10 will not be replaced by a higher number in the autumn-winter peak of demand?

[Answer] In the years 1979-1981 the demand for energy exceeded the installed capacity of the utilities. Today the generating industry is much stronger after the commissioning of a number of units at the Polaniec power plant and the completion of the construction of the 670 mW pumped-storage plant at Zarnowiec. In June 1980 the installed capacity of the utilities and in-plant power stations taken together totaled 24,500 megawatts, whereas 4 years later it rose to 27,300 mW. Nevertheless, this year the surplus of available capacity over demand was already quite low. In the first half of 1983, during a typical evening peak in demand we had 1,000 megawatts in reserve while a year later this was down to 500 mW. We are afraid that if the demand for energy continues to grow at the present pace of 6.5-7.5 percent a year, the power industry will not be able to keep abreast of that growth. We shall neither be able to satisfy the resulting demand for fuel. The way things look now, the power industry will at best be able to satisfy an annual growth of demand between 2.5 percent and 3.5 percent a year. Unless demand stabilizes, the curves of available capacity and the demand for it will cross and

we shall have shortages once more, with Grade 16 or 20, beyond which drastic cuts and blackouts begin.

[Question] Do you expect cuts and limitations already during the coming winter?

[Answer] The PDM forecasts for the autumn-winter peak give some ground for optimism, provided demand does not grow by more than 4.5 percent. With a 4.5 percent growth we shall be able to balance supply with demand, unless there are unusually unfavorable weather conditions, with huge amounts of rain or snow, gales, very low temperature, which result in increased demand and make it more difficult to burn the wet fuel. However, in the following years, the balance of generating capacity will be negative unless the growth of demand slackens. In our view growth of demand can occur in households and municipal services, whereas the demand of industry must be stabilized at the level of 1983-84. We know from the experience of other socialist countries that this is possible. In East Germany, Hungary or Czechoslovakia, production has been rising for the last few years while energy consumption has remained constant. This means that the available energy is put to more rational use. Appropriate studies should be made in Poland to define the indispensable level of energy consumption per unit of national income. The fast growth of energy consumption in Poland means that unit consumption, while already very high, keeps going up.

[Question] Is the PDM capable of limiting this excessive appetite for energy?

[Answer] When the functioning of the whole energy distribution system so requires, we are empowered to order cuts in energy consumption or to switch off some customers. However, we do not monitor unit consumption of energy and have no influence on its rationalization. To big customers we suggest lower consumption in periods of peak demand and bigger consumption between the peaks.

[Question] Specialists have been voicing concern about the technical standard of Poland's power plants. Sometimes it is possible to come across the view that this is so not only because of delays in investment and modernization programs but also excessive and uneconomical use of the plant, forced by the PDM. To what extent do you think such views are justified?

[Answer] The PDM does not impose any decisions on the districts and the power plants subordinated to them, but only coordinates distribution plans with them. These plans take into account the capacity of individual power plants and serve as the basis of monthly plans prepared 2-3 years in advance. It is therefore possible to plan for overhauls earlier. I must admit that it is relatively easy to prepare the distribution plans when supply is balanced with or even exceeds demand. It was not so easy in the years 1979-81, when that balance was lacking all year long. Then, indeed, orders were coming from above, which meant that overhauls were not made in the most convenient periods for individual power plants.

On top of that, there was work at full capacity in the whole autumn and winter, which ruled out preventive measures and was the main factor responsible for the technological difficulties.

[Question] Is this to say that the years of a deep energy crisis have left a lasting mark on the technical condition of the power plants?

[Answer] By a lucky coincidence, we avoided any drastic situations. In fact, consumption of electricity stabilized in that period, or even dropped somewhat, and it was possible to improve maintenance. In the second half of 1982 and in 1983, the available capacity in older power plants, in which there was no time for preventive actions before, increased by 600 to 1,000 megawatts.

[Question] How often are there breakdowns in power plants and how does the PDM cope with them?

[Answer] In the late 1970's, when the shortages of energy were deteriorating, the breakdown rate in power plants was quite high, reaching 8-9 percent or even 10 percent of the installed capacity in some months. Old and new plants were equally affected. As much as 1,500 or even 2,000 megawatts were sometimes lost through breakdowns and cuts in supplies to customers were inevitable. Nowadays the losses are much lower, the breakdown rate being 3.5-4.5 percent on the average and the loss of capacity rarely exceeding 1,000 mW, with the typical value being in the order of 700-800 mW. Actually, this is even slightly less than the world average.

[Question] For your customers, breakdowns in transmission lines are as painful as breakdowns in the generating plants. How often do they occur?

[Answer] For the 400 and 220 kV transmission lines, which connect power plants or groups of plants with regional distribution centers, the breakdown rate is low and corresponds to the average world figures. Lower-voltage networks, from 110 kV down, have more breakdowns because of delays in maintenance works and the development of these lines. There are also many breakdowns in medium- and low-voltage networks supplying electricity to towns and villages. They are overburdened, repaired too rarely and expanded too slowly.

[Question] How have overhauls progressed in the power plants this year?

[Answer] There has been no trouble so far. The amount of repairs done in the second half of June was higher by 10 percent than the figure for the corresponding period of 1983. On a typical day, generating units totaling 4,700 megawatts were undergoing repairs, compared to 4,200 mW a year earlier. This increase is proportionate to the growth of installed capacity.

[Question] The PDM holds a monopolistic position in electric energy turnover. Its main customers are the energy districts, which both sell energy to the PDM and buy it from it. How is this arrangement working and are the customers satisfied with their wholesaler?

[Answer] Every kilowatt hour of energy generated in Poland is sold by the producer to the PDM through district energy administration (ZEO) and then sold to the end user, again through the districts. Apart from handling the distribution, we also keep the so-called internal accounts of compensatory prices for individual energy suppliers. This is consistent with the principles of the reform in this area of the economy. We pay separately for the energy supplied and for the capacity to produce it. The price of energy covers the so-called variable costs, i.e., the cost of the fuel, whereas the price for the capacity to produce covers the constant costs of the power plants, in other words, the maintenance of that capacity. We also sell energy and the capacity back to the district separately, using prices to stimulate the reduction of consumption in the autumn-winter season. Through the Elektrium company, we also sell and buy energy abroad.

The balance sheet of the domestic turnover is in principle neutral whereas there is a certain surplus of funds in foreign trade, which is spent on the barter import of such materials as aluminum oxide or maize.

On the whole, the PDM is making profit. This profit is a source of money for a centralized development fund, from which we can assist the regions in their investment projects of national significance. All other projects are in principle financed from the own funds of the districts and power plants.

[Question] Do the districts benefit from the compensatory prices in any way?

[Answer] If not for these arrangements, a customer obtaining electric power from an old and less efficient plant would have to pay for it much more than a customer of a modern and economical plant. With the compensatory system, we have an identical price for energy throughout the country.

[Question] But does not this free the power plants from the need to show concern for lowering costs?

[Answer] No, on the contrary, previously the power plants received funds for investments, overhauls, etc., from various sources. Now they have to earn all the money they need themselves. There are uniform criteria: the prices for energy cover the cost of fuel with a small profit, whereas every power plant may achieve a bigger profit for its readiness to supply energy. This readiness is calculated in proportion to the installed capacity of a given plant. If an old power plant puts 80 percent of its installed capacity at our disposal, it will earn more than the most modern plant that will have only 70 percent of its theoretical capacity in working order. The old plant may even stand idly if the PDM decides that it does not have to produce electricity, but we shall pay it anyway because we know that we shall get energy from it when we need it. When it starts producing, it is additionally paid for energy. On the other hand, a very efficient plant, which is asked by us to work at full capacity often but has frequent breakdowns and low reliability, will not be paid much for the availability of energy and will be in financial trouble.

[Question] Which are the most efficient power plants in Poland and which ones the PDM would like to employ as sparingly as possible?

[Answer] For a long time already there has been a close contest for the first place between the Rybnik and Turow power plants. These are followed by Kozienice, Dolna Odra, Polaniec, Jaworzno II, which are modern plants equipped with 200 mW units. Belchatow, too, would be in the lead but its lignite strip mine is still under development and the fuel is still rather expensive. The least economical ones are the old collector-type plants such as the Powisle plant in Warsaw or the Kalisz plant. However, they supply fairly much heat, which improves their performance somewhat. The least economincal units of all are the two oil-fired generating units at Patnow, which are treated as an emergency reserve source of power and which work for less than 100 hours in a year, only when some disaster strikes the national generating system.

[Question] Let's go back to the most important problem, that of unit power consumption in the national economy. Appeals to consciences will not help reduce that consumption. The appetites are growing despite the daily communiques broadcast over the radio.

[Answer] I don't think that restrictions imposed from above would help. So far, they have not been very successful. Prices have not helped to rationalize energy consumption either. They did increase some time ago, but the growth was incomparably smaller than that of other prices. In fact, electric energy has become relatively cheaper, if the average wage can now buy 2.5 times more energy than in 1970. As for industry, foreign studies have shown that the growth of absolute prices for energy has only a limited impact on consumption because the manufacturer includes the extra cost in the price of his product and passes the increase on to the buyer of the end product. Prices, or rather full systems of fees for energy, could affect consumption in households and municipal services. If I want to heat my flat with an electric heater today and will have to pay for it in a year's time, and by installments at that, I will not think of lowering consumption. Besides, you don't have much choice if you live in one of the new housing estates where you can put a finger between a closed window and its ill-fitting frame.

It is therefore necessary to take every step possible to rationalize the use of electric energy. It must be remembered that power generation is harmful to environment, that the resources of fuels will not last forever and that the miners have to work very hard. At present, the power industry is operating at a profit but that is only so as long as the fuel prices stay at the present level. If coal prices were to increase--as they should because the coal mining industry has to be subsidized now--the utilities would not pay for themselves.

[Question] Then we should take to heart the daily communiques of the State Electricity Distribution Center. Thank you for the interview.

CSO: 2600/1281

MINISTER RATES DRIVE TO CHANGE ENERGY CONSUMPTION PATTERNS

Warsaw ZYCIE GOSPODARCZE in Polish No 35, 26 Aug 84 p 5

[Interview with Minister Jerzy Wojcicki, head of the Central Energy Authority (GIGE), by Janusz Chmielewski and Janusz Ostaszewski; date and pla not specified]

[Text] [Question] What, if anything, has changed for the better in energy management?

[Answer] Looking at it in perspective, it is easily noticed that our energy husbandry is increasingly civilized.

[Question] Yet the unit consumption of energy in Poland is still about the highest in the world, which is confirmed by various analyses and comparisons and, frankly speaking, not much has changed in this picture, especially if you take into account the needs and the progress recorded elsewhere.

[Answer] This is mainly the outcome of the structure of Poland's economy. We have very many branches of the mining industry that consume huge quantities of energy and an energy-intensive manufacturing industry which is still too outdated, and finally we have the monopolistic position of coal, with all consequences.

The country has little oil and natural gas. Poland relies on coal for 84 percent of its energy needs. If we tried to change the structure of fuel consumption and replace coal with other energy sources, we would have to spend an equivalent of Poland's foreign debt within the next few years. However, the most rational energy policy can be pursued when there is plenty of natural gas. It insures the highest efficiency of machines, does not entail high transportation costs, and it is also the least harmful energy source from the environmental point of view. But while we can discuss whether the structure of fuel consumption in Poland is or is not rational enough, there is not much that can be done to change it. Besides, given the present structure of fuel consumption, we are condemned to have a high ratio of the so-called primary energy consumption. Industry needs some 9,000 megawatts of energy, but out of this amount 2,000 mW is consumed by the mining industry. Out of the 11 million tons of rolled goods, almost 1.5 million end up in coal mines. This is called secondary energy consumption. And to this we should add the energy needed for transporting the coal.

[Question] It sounds as though the situation is hopeless and can in no way be remedied. However, unit energy consumption is nowadays a basic criterion of the evaluation of the modernity of industries and their products.

[Answer] Your conclusion is unwarranted. After all, in 1983 some improvement was noted when national income (in constant prices) increased by 4 percent whereas the use of primary energy only went up by 0.4 percent. The consumption of energy per unit of national income, in comparable prices, decreased by 3.5 percent. A similar consumption was observed in the first half of 1984. Energy consumption per unit of national income was on the increase since the mid-1970's, but now the trend has been reversed. In comparable conditions, the use of primary energy for the production of the 1983 national income was lower by 5.6 million ton coal equivalent (t.c.e.) than in 1982, whereas in the first half of 1984 it was 1.6 million t.c.e.'s lower than in the first half of 1983.

[Question] Is this a result of systematic long-term work or the outcome of stopgap savings measures?

[Answer] Energy economy is the sum total of both small steps and moves of nationwide significance. Let us put it bluntly: the price of energy is too low in Poland. It accounts for only several percent of an enterprise's costs. Therefore, if a manufacturer were to save, say, one-half percent of the energy he uses, he will quickly reach the conclusion that it is much easier to round off upwards the price of his products and have the problem out of his mind, rather than investing money or at least thinking of how to save the energy.

The hue and cry only begins when energy begins to be rationed. The way it is with energy carriers now. I can only take them away from someone to give them to somebody else. There is no other option.

[Question] If economic incentives are not sufficiently strong to enforce savings and a change in the structure of energy consumption, things look really gloomy and the talk of pursuing an energy policy is little more than nice words. But your inspectorate should seek the introduction of economic instruments that would stimulate desirable action on behalf of enterprises, including research and development undertakings.

[Answer] So far, the economic incentives in this domain of the economy have been really ineffective. The reformed principles of management should envisage special stimuli for saving energy and rationalizing its consumption. Unlike any other commodity, energy is not renewable. You build a house only once, but once it is ready you have to supply it with energy all the time. You can't suddenly stop delivering it to industry and households as this could have incalculable consequences. A recent study has shown that on the average, the failure to supply one kilowatt hour of electric energy to the economy when it is needed results in losses equivalent to 50 kWh.

Energy management is a notion that is present in all the branches of the national economy, all industries and all environments. I have already said

that energy is too cheap. But if we raised the prices, there is no guarantee that it would be used more rationally. The next step is required: the user should be interested in saving the energy. He must be told in plain terms: if you do not save energy, you will pay dearly for it. But if you make an effort to save it, you will get additional benefits. Maybe it would be necessary to finance energy and fuel saving projects from an enterprise's sales tax or to set up a special system of budget subsidies.

[Question] A rationalization of the use of fuels and energy cannot be achieved for free. In order to save, it is necessary to invest money first. Besides, even if the money were there, I'm afraid there isn't much Polish science and technology can offer in the domain of energy saving.

[Answer] It's not really that bad. The Central Energy Authority (GIGE) recently examined the activity of the Research and Development Center for Energy Management (OBRGE). The center presented proposals of concrete moves resulting in savings of energy. However, in many instances there are problems with the practical introduction of energy-saving measures. Even when an agreement on industrial application is signed, the firm concerned tries to do it as slowly as possible, just as if it were completely disinterested in it. There is a lack of genuine interest, stimulated by economic instruments. At best, there is the fear that the energy inspector may cut the allocation of energy.

[Question] Meanwhile, other countries are making great advances.

[Answer] Somebody asked me once: "What have you really accomplished in the area of saving energy and fuels, Wojcicki? In France they cut the consumption of crude oil by 20 million tons in just 3 years. Fine, but the per capita consumption of oil in France was 3 tons per year and this was reduced to 2.5 million tons. In Poland, the average consumption is 0.38 tons per head, so where is there any room for saving? The savings effected in France cost a lot to achieve. First of all, they gave up hydrocarbons in electricity generation, closing down dozens of oil-fired power plants. On the other hand, the system of nuclear power plants was expended. Totally new heating techniques were developed, with the mass introduction of heat pumps. However, these measures were profitable both for the state and the average citizen. The sums were easy to make: the average flat required 10 tons of heating oil a year, which cost about $4,000. A heat pump also costs $4,000 but it cuts energy consumption by a half. Besides, credit is available on very convenient terms.

[Question] Meanwhile in Poland it is next to impossible even to buy the crudest seal for a leaky hot water tap.

[Answer] This is precisely a problem related to the indispensable outlays. In the world, the range of products and equipment serving the reduction of energy consumption is now so vast that there is no problem finding the right thing for every need. Here we do not have such choice because, in my view, the engineering industry is still not sufficiently developed. In order to save energy you need a specialist market with all kinds of products, beginning with the seal you mentioned and ending with various recuperators or thyristors

produced in huge quantities. We do not have enough insulating materials to minimize heat losses and many other products and materials.

[Question] Which leaves us with quotas and bans?

[Answer] The GIGE has a division concerned with certifying various energy-consuming products for use. A special team tests their quality and efficiency. It can be assumed that sooner or later this work will result in a lower use of energy by customers. I could, for example, ban the production of the Polonez car, which burns 9.5 liters of gas per 100 kilometers and in this way force the manufacturer to introduce design changes that will make it more fuel-stingy. This is a way of catching up with the world leaders. But in most cases this pursuit boils down to the necessity of spending definite sums of money, and that is a more serious problem.

There are still vast opportunities of tapping simple possibilities of energy savings, but they require appropriate equipment, modern facilities and the possibility of automating production processes. These possibilities are missing. The equipment which we managed to embrace by government orders are only a drop in a bucket.

Take the coal-burning kitchen ranges. Their energy efficiency is comparable to that of a steam locomotive and stands at some 8 percent. Various modernization moves could help push up this efficiency to 20-25 percent. It can therefore be claimed that a certain technological revolution has taken place. But even so, some 75 percent of energy goes up in smoke.

[Question] How many such ranges are there in Poland?

[Answer] About 7 million. Out of that number, 6 million are the outdated low-efficiency ones. To burn coal in them is pure waste, and these ranges should be replaced for the more efficient ones. However, the latter are produced at a rate of 250,000 a year. How long would it take? And does it make sense at all to replace these stoves? The most efficient solution from the point of view of the energy policy would be to swtich to gas stoves, but there are shortages of liquid gas, because it is obtained from oil. Electric ranges might be the right answer. Their efficiency is estimated at some 70 percent and they are run off a centralized energy source. On the other hand, electric energy certainly should not be used for heating because the demand for energy would greatly increase then. In this case it is necessary to strive to develop huge centralized heating systems.

[Question] Long-range plans already refer to the year 2000. This isn't really very distant future, especially from the point of view of energy policies. We know that coal is and will remain the main source of energy. However, its resources are limited. How much does your inspectorate think should be spent on the rationalization of the consumption of fuels and energy?

[Answer] Approximately Zl 750 billion. This outlay should result in a saving of some 70 million t.c.e. Nay, it must rather than should, as there is no other way out. At present the annual energy consumption stands just under 170 million t.c.e. Assuming that production will double by the end of the century, the demand for energy will amount to some 320 million t.c.e. Given the capacity of Polish mines, which will not exceed 200-210 million tons a year, and the limited possibilities of importing oil, gas and nuclear fuel, it will not be possible to supply that much energy.

[Question] Which leaves savings as the only alternative.

[Answer] Yes, savings, which can be divided into two groups.

The first one concerns changes in the methods of production and technology, the organization of production and transportation and in heating systems. These are savings connected with the introduction of new technology to the national economy. We estimate that on account of this it will be possible to save some 40 million t.c.e. The remaining 30 million t.c.e. should be found through structural changes. We must decide whether we want to maintain the domination of raw materials in the economy and keep developing the production of electrolytic copper, crude sulfur, sulfuric acid and PVC or not. We have the raw materials needed for the production of these commodities and can sell them on foreign markets without much effort. However, it must be realized that this requires a great deal of energy. Perhaps we should concentrate instead on the production of highly processed goods from the available resources and only then try to sell them on foreign markets?

[Question] And instead of electrolytic copper sell products made of it?

[Answer] This is an oversimplified example, because electrolytic copper happens to be exempted from import duties, whereas copper wire carries a heavy import tariff because it is regarded as a highly processed product. As a result, we do not have much of a choice and we sell what the importers are aready to buy from us. This, too, perpetuates the present structure of our economy.

[Question] A new law on energy management has been in force for some months now. It offers a chance of putting the country on a slimming diet in terms of energy intake. It has frequently been emphasized that the law is of a comprehensive nature and that its provisions should be binding on energy suppliers and users alike. But the coal industry has been exempted from the operation of the law. Why?

[Answer] The law applies to the mines as users of energy but as producers they are indeed exempted from the law because they are embraced by the mining law and geological regulations, although even so they must be governed by economic criteria and efficiency requirements.

The industry has recorded a very significant rationalization of energy consumption. Unit consumption of energy was more than halved during the last 10 years thanks to the application of new types of machines and equipment.

Besides, energy consumption by coalmines is subject to quotas and monitoring. Nevertheless, in this industry it is not possible to lower consumption below a certain level. The biggest amount of energy in mining is used by ventilation, cooling and pumping out water. These are processes on which the safety and health of miners depend.

[Question] This is not what we want. It would be nonsense to save energy at the expense of the health and safety of the people toiling underground. The point is whether it is possible to avoid building ever more mines and invest instead in projects insuring a more rational use of the available coal.

[Answer] Calculations show that it costs only half as much to save one t.c.e. as it does to develop new energy sources. Therefore, I do not need to convince anyone that it is better to save and rationally use coal than to build new mines.

[Question] Exactly, this may mean that instead of investing in the coal industry we should seek for other ways of satisfying our energy needs, e.g. by means of a faster development of nuclear power generation. The first, nuclear power station is under construction while fierce disputes are in progress over the siting of the second plant. Again planning errors have been made, leading to protests on the part of scientists and public discontent. Doesn't that show that the coal and energy industries, which have got accustomed to an almost unrestricted choice of the sites for their projects, are unable to solve these delicate problems in the proper way?

[Answer] I must say that personally I do not suffer from the Hiroshima complex, but no doubt this complex is quite deeply rooted in Polish society as well. However, this should not be an obstacle to the development of technology and of nuclear power generation.

In my conviction, the construction of nuclear power plants in Poland should be promoted also for environmental reasons. Almost 60 percent of heat energy from a nuclear reactor is usually lost. If it were used for heating huge cities, it would be possible to wind down many coal-fired plants which heavily contribute to pollution in urban areas. This is what the Czechoslovaks are doing: they decided to build their nuclear plants in the vicinity of big conurbations. I think we should proceed along similar lines.

[Question] Maybe you'll think I'm not fair to you and your authority, but from this conversation one can get the impression that at least for the time being your activity is focused on stopgap measures rather than long-range undertakings and that you devote more time to distributing the poverty and monitoring than to the formulation and implementation of the principles of some definite national energy policy.

[Answer] The role of the authority that I am heading consists in shaping the energy policy. It is based on a document entitled "Energy Forecast--Poland 2020," prepared with the help of the GIGE, which is of the nature of a warning and which furnishes a vision of an energy-efficient economy. We

have also prepared a conception of rationalization of energy consumption until 2000, which was approved by the Government Presidium last May. But at the same time we act as a kind of energy police, which is in charge of monitoring the performance in this branch of the economy. As such, we penalize those caught while infringing on relevant regulations or carelessly squandering energy.

A police is rarely admired--nor does it have to be--but it should be respected. In my opinion, the chief energy inspector has earned this respect. This is confirmed by many letters and suggestions we received when the main lines of the energy management law were being discussed. Interestingly, most of the suggestions coming from industry--which has no reason to love us--urged more stringent penalties for wasting energy.

Current checks and penalties are not therefore our only or our most important concern. However, from the monitoring activity we draw conclusions for the whole energy policy, both the current and the long-term one. We do not have much room when it comes to substituting one source of energy for another. So what can the GIGE do in this situation? For example, it can ask the steel industry to use electric energy instead of gas and the gas thus saved can be used in the production of nitric fertilizer.

This is the kind of dilemmas we have to solve on a daily basis.

[Question] They are, I'm sure, hard dilemmas. But this is only the rationing of shortages, not an energy policy.

[Answer] These moves are necessitated by the existing situation. I would prefer a situation in which there would be no scarcity of any form of energy, when you wouldn't have to take something away from someone to give it to someone else. For today, the energy policy means the protection of public interest and such a distribution of the available resources that will make it possible to avoid irreversible and very harmful situations. Unfortunately, we are not in the position that France was, as I mentioned before.

[Question] And the last question to Minister Wojcicki....

[Answer] It must be about petrol rationing.

[Question] Not quite. I want to ask if private car ownership has any future in Poland.

[Answer] That's a difficult question. I think the development of the motor industry and car ownership are necessary for social and political reasons in the first place. However, it must be based on sound economic foundations. The Fiat 126 and 125, the Polonez and the Zuk, Nysa and Tarpan delivery vans fortunately are not economical vehicles. We must remember that for many people the car has become a tool of their trade. Altogether the private sector uses as little as 1.8-1.9 million tons of gasoline a year and a half of that amount is used for business purposes by private trades, retailers, various services or private taxi cabs.

I am not and I cannot be an enemy of motor transport. However, I am an ardent advocate of dieselization of the economy, first of all of light trucks and vans. Alas, this is another costly undertaking, involving some 40 billion zlotys I presume.

CSO: 2600/1281

PLAN PRIORITIES, LIMITS STILL SQUEEZE CONSUMER GOODS SECTOR

Warsaw ZYCIE GOSPODARCZE in Polish No 36, 2 Sep 84 p 3

[Article by Grazyna Smulska: "The Conumser Goods Market in the Grip of Priorities"]

[Excerpts] Market equilibrium in mathematical terms means the balancing of the supply of goods and the demand determined by current earnings and savings of the population. In practical terms, the equilibrium is there when the goods that are currently available are the ones which the people who have the money to spend would like to buy. However, market equilibrium is not only the function of supply and wages or other incomes. It depends, to a much larger extent, on the situation in foreign trade, investments and the state budget which largely determine the level of merchandise supplies and wages.

For a long time, the consumer market was underprivileged, relative to other branches of the economy and was at the bottom of the priorities list when it came to the allocation of materials, fuels, or manpower, It could only get as much as was left after the satisfaction of needs with regard to investments, foreign trade, or the production of means of production. As the activities in those fields were not oriented toward the equilibrium, the market suffered as a result.

It would be difficult to change this practice overnight. It is still strongly felt in the economic life of the country, despite the fact that this is already the second year of the implementation of the National Socioeconomic Plan in which the restoration of overall market equilibrium and improvement of market supplies of food and other essentials was adopted as one of the principal targets.

What changes are likely to occur in 1985?

The preliminary guidelines of the draft plan for 1985, which had been submitted to public consultation, envisage a 4 percent growth of supplies of goods and services (compared to 6 percent envisaged in the National Socioeconomic Plan for 1983-85), in constant prices, i.e. by Zl 177 billion. This breaks up into 147 billion in goods supplies (up 3.3 percent) and 30 billion in services (up by almost 5.5 percent).

The authors of the draft plan submitted two variants of using the projected real growth of supplies of consumer goods. According to variant I, real incomes of employees of the socialized sector and pensioners would remain at the 1984 level whereas the whole increase in market supplies would serve the improvement of the equilibrium.

The implementation of this variant, according to the authors of the draft, could lead to balancing the current inflow of money purchasing power to the market with the supply of goods and services for the first time in years, in other words, the elimination of the inflationary gap between incomes and expenditures. According to variant II, only a part of the increment in the supplies of consumer goods would serve the improvement of the market situation. In return, real incomes could be expected to rise by 1-1.5 percent, but as in 1984 and the preceding years, part of the money would not be able to buy any goods and would become compulsory savings.

According to the government, variant I corresponds to well-conceived interests of the working people as it not only offers a chance of easier shopping and of eliminating the negative phenomena associated with the existence of shortages, but also makes it possible to increase the efficiency of operation of production and work. Its implementation will strengthen the position of all customers, including the customers for production supplies, limiting the monopolistic position of the suppliers."

However, to me this appears to be a purely mathematical approach. There can be no certainty that the market will really improve when real incomes are frozen, especially in view of the projected population increase. However, it is important to choose between the two variants for motivational reasons. Somebody has to produce the extra goods. Extra effort and higher productivity--which are preconditions of the attainment of the projected production growth, according to the draft document--must be profitable and be suitably rewarded. How can this be done?--this is one of the many questions that come to mind during an analysis of the draft.

Variant I may indeed be more "attractive" than variant II, but mainly from the social point of view. It is true that for the average customer the difference between the two approaches consists in a different speed at which the shop shelves will be filled with merchandise. However, if under variant II, wages were to rise, so would the prices, and that means that social differences expressed in uneven access to various goods would get worse.

However, with regard to consumer goods, the growth rate is not quite as important as the structure of supplies. It is estimated that real growth of supplies of nonfood items should reach some 6 percent in 1985 (compared to 8.4 percent envisaged for that year in the 3-year plan), but at the same time it is hinted that this growth could be bigger, provided that there are bigger savings of materials and that these materials are used for the production of consumer goods. However, in practice these two conditions are not very difficult to meet.

It is anticipated that the satisfaction of the demand for various kinds of consumer durables will differ from one commodity group to another. However, there is no indication that efforts will be made to achieve equilibrium in selected areas of the market, despite the fact that this would have a bigger positive impact on the atmosphere on the market than improvement scattered over many branches of production.

It is not easy to answer how deep the disequilibrium will be. In connection with the work on the plan, it is necessary to ask about the real size of the gap between demand and supply with regard to individual kinds of products. There are probably some estimates but essentially the knowledge of the structure of demand is almost nonexistent. It is hard to say what people would want to buy if the market abounded in various products. The views are based on the intuition of experts rather than on accurate studies.

An estimate prepared by the minister of domestic trade and services regarding the degree of satisfaction of demand for various products is of a similar nature. The biggest gap--and probably the most reliable estimate too--concerns enameled kitchenware: the 26.5 million pots to be delivered to the market would satisfy only 42.7 percent of the demand (the 3-year plan promised 42.5 million vessels). A similar situation obtains with regard to aluminum vessels (46.6 percent) and black-and-white TV sets (44.5 percent). In both cases the proposed figures are also lower than the projections contained in the 3-year plan.

Despite a growth of supply, also the shortages of cutlery would be severe, according to the ministry estimate (60 percent of demand only to be satisfied). The demand for radio sets would be satisfied in 61.7 percent, washing machines other than automatic ones--70.7 percent, automatic washing machines 81.7 percent, freezers 76 percent, sewing machines 75.7 percent, bicycles 84 percent, lightbulbs 78.2 percent and furniture 78 percent.

Other examples: cotton fabrics 52.3 percent satisfaction of demand, woolen fabrics 71.4 percent, linen and hemp fabrics 69.8 percent, silk and silk-like fabrics 79.7 percent, knitwear 77.3 percent and hosiery 75 percent.

The situation would be relatively good with regard to refrigerators (90.6 percent), washing powders (95 percent) and soap (100 percent, but better-quality bars only 86.7 percent) and footwear (100 percent, with the exception of rubber and canvas shoes, 63.2 percent).

The figures are hardly encouraging and most of them are below the 3-year plan projections, but their importance should not be exaggerated either. Experts believe that if the amounts requested by the ministry were indeed supplied, many goods would not find buyers, also because some people would not be able to afford many things while others would not be buying more than they already are. Despite the absence of a major improvement of the structure of production, the implementation of the proposed plan would result in an improvement of the situation in virtually every area of the market. Only the supplies of coke, petrol, motorcycles and sawn timber would be lower.

There are plans to consider the possibility of altering the structure of supply of nonfood products through foreign trade. For example, it is possible to increase the export of passenger cars and import scarce light industry products instead. There could be more such swaps and on the surface they appear to be correct. However, this is not a comprehensive solution. It might produce some short-term benefits but in the long run the structure of foreign trade should be determined by economic criteria. Maybe it would be more profitable to reduce the import of foreign components for the motor industry instead of exporting cars, and import more components for the manufacturers of washing machines instead.

Food supplies (alcohol not included) are to rise by 0.7 percent compared to a 3.1 percent growth envisaged in the 3-year plan and to 0.8 percent population growth. However, the supplies of the most important food products will increase faster than that.

It is estimated that the supplies of meat and poultry will increase by 1.7 percent compared to the level to be effected this year, together with other forms of supply, this will make it possible to maintain the per capita consumption of 55.6 kilograms achieved this year. The supply of fish is to stay at 1984 level, enabling consumption of 7.4 kilograms per capita. The consumption of eggs in per capita terms will be higher than in the last 3 years and amount to 209 eggs per head, whereas milk consumption (including that contained in dairy products but not including butter) will be the highest on record at 283 liters per person.

The consumption of bread and cereal products will average 124 kilograms per head, which is more than in the years 1981-1983. The supplies of fats will rise by about 3 percent compared to 1984, with consumption rising from 23.1 to 23.4 kilograms per inhabitant. This will be achieved mainly through bigger supplies of vegetable fats. Sugar supply will stay at 1984 level and reach 44 kilograms per capita.

The supplies of rice will reach only 62.5 percent of the 1984 level and those of coffee only 45.9 percent, which will not satisfy the minimum needs of the market. According to the ministry there should be twice as much rice and two and a half times more coffee. There should also be 5,000 tons of tea more than the draft plan envisages.

The preliminary draft of the plan does not answer the fundamental question: When is the rationing of food going to be lifted? An attempt to abandon rationing was envisaged in an early variant of the plan, but it was later dropped. At present there is no uniform conception of abandoning rationing. There was a time when the view was advanced that rationing could be abandoned with the help of price rises (with the possible exception of meat rationing). However, this would not work so easily. It would be necessary to award cost-of-living supplements as well and farmers would have to get more money for their produce. The net effect would therefore be negligible.

However, if the comprehensive solution is not forthcoming, why not try partial steps, if only by introducing unrationed sales at a higher price paralleled to the rationed sales?

The CAP provisions for 1985 with regard to the consumer market certainly do not fully satisfy public expectations, including those justified by the targets listed in the 3-year plan. If the target proposed in the preliminary plan for 1985 are met, the improvement of market supplies would be 8 percent below the level envisaged by the NPSG and the level of supplies would be 9 percent below the level of 1979.

Even so, the plan will be very hard to implement, as is admitted elsewhere in the document. The degree of capacity utilization in most of the market-oriented industries remains at or above the medium level. Relatively, the lowest reserves of capacity exist in the light industry but the sector of the market supplied by it is very far from being balanced, and it must be remembered that it satisfies elementary needs. While it is possible to put off the purchases of clothing for some time, it is not so easily done with underwear, and nothing can be postponed indefinitely.

One obstacle to the full utilization of the production capacity of the consumer oriented industries is the shortages of labor, mostly female labor, in big cities and not only there. Highly skilled specialists such as toolmakers or fitters are deserting the factories in big numbers in search of higher pay--the light industry pays less than the national average--and without them it is difficult to insure a normal pace of work of the factories. When 100 people leave a factory, the remaining 1,000 cannot work. There is no chance of increasing employment next year as the whole growth is to be channeled to nonproductive areas and no chance of stemming the desertions from the market-oriented industries either. It is true that the decline in employment was arrested in the light industry but it is hard to expect that a similar maneuver will succeed elsewhere.

Next to the shortages of labor there are the shortages of material. There are also many bottlenecks in production. But how can these barriers be overcome by the industry which has so far lost the rivalry over employment and wages as well as the race for raw materials? As it is anticipated that the supplies of materials will not grow as fast as the planned growth of industrial production, it is difficult to dismiss the fears that the market industries will be hit harder than other branches by the shortages, despite the adopted principle of centralized control of the structure of industrial production with the help of economic instrument.

As particularly effective instruments, the authors of the preliminary draft of the 1985 plan recognize government orders and operational programs (together with the supply preferences that go with them) as well as the policy of awarding credits for investment projects aimed at the growth of production capacity. However, the manufacturers concerned have their doubts about the value of these instruments. The privileges in the form of allocations of raw materials are of dubious value. The allocation does not always mean that the needed material will actually be supplied. The uncertainty sometimes lasts long. If the delivery is effected behind schedule, the lost production usually cannot be made up. On the other hand, restrictions in the form of dictating the customers and markets to which the goods must be sold affect company profits. On the whole, this benefits neither the customer nor the economy,

because in the long run this deforms the structure of consumption from the regional point of view.

Quite a few manufacturers long for the time when there were no priorities in force and everybody was left to himself to secure the supplies of materials he needed. Whether he found it or not, at least he knew what he could count on. Nowadays, the number of priorities is so high that, as estimated by the authors of the preliminary draft, they affect 40-45 percent of the national consumption of materials, which is too much to be sure of anything. Maybe it would be a good idea to look at the priorities list once again and limit the scope of rationing of materials and products, so it would not hamper economic development.

The NSEP envisaged a high, 70 percent growth of the sales of goods and services from the private sector. The preliminary draft does not say a word about it, which is a pity because this sector could help to reduce the scope of this rationing. The hope that "thousands of initiatives in enterprises, which, though modest in themselves, will together produce significant results, voiced in the draft, appears to be too weak to attach any great hopes to it. Theoretically, such possibilities certainly exist.

As for investments, the market-oriented industries get very little funds. A report of the Institute of the Home Market and Consumption quoted in ZYCIE GOSPODARCZE 2 weeks ago said that barely 10 percent of all investment projects could be classified as being market-oriented in a direct or indirect way, whereas as much as 74 percent of the funds are spent on mining and energy projects and preliminary processing of raw materials.

Elsewhere in the report it is written that while in the 1970's machinery was replaced in this industry after about 10 years, at the present rate replacement would take 40-80 years to complete.

Market production is also threatened by the still operating mechanisms as a result of which it is more profitable to make producer goods than market commodities. The former grows faster than planned despite the fact that nobody encourages the growth. One reason why all the manufacturers who can do so abandon market production in favor of capital equipment or production supplies are the pricing barriers, which are very stiff and efficient with regard to the former group and virtually nonexistent with regard to the latter. In contrast to the producers of consumer goods, the suppliers of capital equipment and production supplies can raise prices almost at will and nobody is looking at their hands.

No matter what is being said about the efficiency of government orders and other methods of controlling the production of consumer goods, the retailers view them as their last chance and would like the list of products embraced by such orders to be as long as possible. For the time being, it embraces 30 consumer durables and 10 groups of spare parts for mechanical household appliances. The Ministry of Domestic Trade and Services has suggested extending the list to embrace bed linen fabrics, three more kinds of spare parts for appliances and asbestos roofing shingles. Besides, the ministry

deems it purposeful to specify the quantity of fabrics for shirts and tires for tractors, farming machines and trucks in government orders. It also suggested the extension of operational programs to equipment for the food industry, shop scales, refrigerated shop shelves and cooking stoves.

It is true that trade can only sell as much as the industry produces, but it can do it in a variety of ways and help or disturb the restoration of market equilibrium. The insufficient development of the retail network, especially the dearth of shops in new housing estates, is generally known. So is the difficult financial situation of employees and the insuring demands for higher profit margins and tax concessions. However, the proposed rise in markups would result in a growth of prices by 1.5-3 percent.

A more palatable solution, for the time being at least, would be the projected establishment of the Market Development Fund, which would be partly financed from a part of the depreciation fund of enterprises, which would not be absorbed then by the state budget. From the financial point of view, this arrangement is disadvantageous to the economy as it compounds the disequilibrium but maybe the advantages would outweigh the drawbacks. Everything would depend on the way the fund would be used. The plans speak of using the fund both for the development of the trade network and for increasing production, e.g. through machinery purchases. However, how long would it take for the effects to materialize and would they exceed the outlays?

A reader of the preliminary guidelines and accompanying documents may get the impression that the market is in the grip of all kinds of priorities and preferences, both internal and external ones. This is not conducive to freedom of manuever, flexibility, enterprise and initiative, so badly needed in this area of the economy. Hence all my misgivings.

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EXPANSION OF GDYNIA CONTAINER TRAFFIC HANDLING CAPACITIES

Hamburg DEUTSCHE VERKEHRS-ZEITUNG in German 21 Aug 84 p 11

[Article: "Gdynia's Container Handling Capacity Adequate at Present"]

[Text] The upswing in foreign trade has led to a dramatic increase in container transshipment activity at Polish ports in the past year. In 1983, approximately 95,000 containers (20-foot units/TEU) [expansion unknown] with 779,000 metric tons of cargo were loaded and unloaded at the docks in Gdansk, Gdynia and Szczecin-Swinoujscie. This represents an increase in container traffic of 12.7 percent over the previous year, which quickly surpassed the 9.5 percent rate of increase of all general cargo.

The Baltic container terminal in Gdynia is the most important transshipment point. Last year, this port handled 79,369 TEU with a total of 690,000 metric tons of cargo, or 84 percent of all container cargo handled at Polish ports. The rate of increase was 13.7 percent.

The traffic handling capacity at Gdynia is still completely sufficient to meet the requirements of the shipping companies, however those responsible are concerned about future capacity. The once-planned rapid expansion of facilities can no longer be funded. The entire expansion project had been originally scheduled for completion in 1983.

Around 300 of a planned total of 800 metres of dock space have since been completed. The three transporter container-loading bridges can handle roughly 700 TEU per shift. There are a sufficient number of storage areas, both open and covered. According to terminal management personnel, the storage buildings cover an area of approximately 20,000 m^2.

Problems are still being encountered, however, in moving the containers to and from the docks quickly; they often spend too much time in the terminal. The explanation given for this delay is that the inland carriers have not yet adequately adapted to the transport system. In addition, an efficient communications system to accelerate container handling has not yet been installed at the terminal.

This should change soon, however: A data processing system ordered in Italy should be installed by the end of the year, and should be fully operational by the end of 1984 at the latest.

Priority was given to the roll-on/roll-off facilities during the terminal expansion project. One of these two areas has a moveable ramp, while a stationary concrete ramp at the other is seen as satisfactory, as there is almost no tidal lift in the port. The inadequacy of repair facilities is stressed as an additional weak point.

Further development of container handling capacity will depend in large part on expansion of corresponding transport capacity by Polish Ocean Lines. It is expected, however, that the state-run shipping company will not be able to move quickly in this direction in the immediate future. The city of Gdynia wants to use what few funds are available for higher-priority repair and modernization work. This does not mean, however, that no new construction projects are being planned; for example, construction of a harbor basin for handling barge carriers is under consideration.

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CSO: 2300/637

BRIEFS

ZAGREB FAIR CONTRACTS--PAP correspondent T. Sapocinski reports that on 14 September representatives of the BUMAR Foreign Trade Enterprise, which is taking part in the Zagreb International Fall Trade Fair together with 15 other Polish foreign trade organization, signed a big trade contract with its Yugoslav partners. The contract covers the barter trade of construction tractors, the total value of which is slated to amount to 16 million dollars for 1985 (8 million dollars worth for each side). [Text] [Warsaw RZECZPOSPOLITA in Polish 15-16 Sep 84 p 1]

CSO: 2600/1303

CENTRALIZATION OF INVESTMENT FUNDS URGED

Belgrade BORBA in Serbo-Croatian 25-26 Aug 84 p 3

[Article by Jovan Radovanovic: "Leaders in Mistakes"]

[Text] Preventing excessive consumption is the great task that is reiterated in every assembly and party document. Possibly this is the reason why at a recent press conference at the SDK of Yugoslavia, it was said with unconcealed satisfaction that there had been a real reduction in investments in comparison with last year, and all the newspapers particularly emphasized this. On the same day, however, one could learn from the newspapers, from just such a press conference but at the SDK of Slovenia, that in that republic, during the first 7 months of 1984 investments grew by 87.5 percent (an estimated value of about 32 billion), and that noneconomic investments had been increased by 230 percent in comparison with last year!

If cutting back on inflated consumption (which means investments too) is today not only the paramount political task but also a question of economic recovery, economic logic nevertheless,warns that the solution is not reducing investments across the board, but rather paying more attention to selection and to raising their effectiveness. If it is clear that it is necessary to economize, it is also clear that without new investments, with almost a million people unemployed, we can enter a more unstable period soon.

Like many developing countries, Yugoslavia also has not been able to satisfy investment consumption through its own accumulation. We became accustomed very quickly to using funds from abroad in addition to the two main sources, accumulation and amortization.

According to the research of Dr Dragutin Marsenic from the Economic Faculty in Belgrade, before the beginning of 1966 Yugoslavia's foreign debt was 16.4 percent of the social product. The situation has changed so much in 15 years that we began 1980 with a debt that had reached 33.5 percent of the social product.

In addition to a large foreign debt, the investments were also covered by a sort of internal "overflowing." The funds were secured through the redistribution of the parts of the social product which in the previous basic application distribution were earmarked for current nonproductive consumption, and were

redirected into investments by later decisions on the part of various "entities in the social structure."

Coverage Through Credits

This can be seen clearly from the following table, which covers the last two five-year planning periods.

Basic Distribution	1971/75	1976/80
--social product	100	100
--current consumption	75.3	77.6
--investments	24.7	22.4

Final Consumption	1971/75	1976/80
--total consumption	107.6	108.3
--current consumption	63.8	63.2
--investments	40.6	43.3

Coverage of Investments	1971/75	1976/80
--investments (total)	100	100
--from the basic distribution	61	51.7
--from redistribution	28.2	33.1
--from abroad	18.6	19.1

Thus, in the first half of the 1970's a quarter of the social product (24.7 percent), and in the second half more than a fifth (22.4 percent), was set aside for investments in the basic distribution. At the same time, investment consumption had a 40.6 percent share in the final utilization of the social product in the first half of the 1970's, and a 43.3 percent share in the second half. This share was also reflected in the approximate level in the following years, to be cut almost in half today. The discrepancy that appears even then indicates the fundamental causes of the present unstable situation in the Yugoslav economy. Final consumption exceeded the social product by 7.6 and then 8.3 percent, and the investments were financially covered by the economy's own funds only at the rates of 61 percent (1971/75) and 52 percent (1976/80)! A fifth of this coverage was based on a deficit in foreign trade, and a third of it resulted from redistribution. And although these indicators changed in recent years, there are clear trends that cannot be changed quickly today even with much effort. The investments that are not derived from the basic distribution of the social product are based on credits. Investing more than it has accumulated, the Yugoslav economy has had to reach out for credits, encumbering itself with an enormous interest burden. And although the self-financing of the economy, which is even written down in the constitution, is the goal of the self-managing socialist system, there are still many barriers to be crossed before reaching it.

"The fact that for years we have 'eaten' our accumulation, which was completely unprotected in the basic distribution of the national income, has inevitably led us to financing investments with foreign credits and the large-scale inflationary issue of dinars," says Prof Dragoje Zarkovic of the Law Faculty in Novi Sad. "It is sources of investment like these that have to a great extent caused an irresponsible attitude toward investment undertakings, all of which together has brought us to a difficult economic and social situation, which is being manifested in the country's enormous overindebtedness abroad, galloping inflation, and increasingly greater internal illiquidity, and massive and growing unemployment."

All of the information to date clearly indicates that in the structure of investment funds, half is comprised of credits from Yugoslavia and abroad. Then the repayment of these credits takes away more than half of the OUR [Organization of Associated Labor] funds for investment, and only the remainder of the available funds can actually be used to replace or increase their production capacities.

Although today the burden of interest that the economy has to repay to banks is fairly heavy, Prof Ljubomir Madzar of the Economic Faculty in Belgrade called attention at one time to an interesting fact, calculting that in the golden period of large-scale borrowing, because of low interest rates and cheap credits, investment credits, in real terms, returned only 28 percent! To put it simply, the cost of social capital was unrealistically low.

OUR's Small Change

After the closing down of the centralized funds, investment funds were first of all divided among the republics, and then broken down among tens of thousands of OUR's, and today, in a certain strategic view, they really do not have much significance. And when one knows that only a tenth of the funds for investments is formed on the basis of self-management association, then it is clear that the Yugoslav economy is crying out for some more efficient means of concentrating funds, without which there cannot be true large national investment undertakings.

Prof Branko Horvat has for years advocated the idea of the formation of an intervening development fund, although as he puts it, the hair on the politicians' heads stands on end at this. Feeling that such a fund is essential to Yugoslavia as a defense against various kinds of economic blows to which the economy is vulnerable both from within and from outside, Horvat reminds us that there was a central investment fund, which had its defects. It was bureaucratically controlled, far from the eyes of the public, and administratively centralized, but with all of its defects, it worked. If today more than 40 percent of the social product is used for investments, and economic growth is around zero, growth at one time at a rate approximating the highest, Japan's (8-10 percent), confirms the need for an intervening fund, Horvat feels, but one from which the observed political defects would be eliminated. "Political defects, however, are eliminated by political means, and not in such a way that the fund would be liquidated," Horvat says.

Without going into the solutions proposed by Horvat, Academician Kosta Mihailovic of the Economic Institute in Belgrade, warns that in order to solve the structural problems of the Yugoslav economy, it is essential to find a way to concentrate the investment funds, since it is only in that way that the problems in the areas of raw materials, agriculture, and energy, for example, can be solved. Investments in these areas, because of their size and the high capital coefficient, are not economically attractive for firms, opstinas, and even republics, although they are the key to increasing the effectiveness of overall investments, and a condition for getting out of the lack of structural coordination that is the source of most of our troubles. "For 2 decades now suggestions have been made about consultation and agreement, but nothing has been achieved in this way, and the economy has encountered an increasingly greater raw materials and energy barrier. From the opstina to the republic, everyone is interested in having the dinar remain in his territory, and it is known that unofficial influence on the banks has always been very strong. It is obvious that we need to seek shorter and more effective methods of concentration," Mikhailovic says.

Who will concentrate the funds? Formally, associated labor. For the time being such a concentration will be absent, since neither associated labor nor its "guardian," the state, is able to do this. This is for several reasons. The state, at least the federal part of it, long ago lost the authority to be able to do anything serious in this field. On the other hand, there is a contradiction in the very commodity essence of associated labor, the economy, that encourages everything that does not favor the self-management polling of funds. The commodity producer does not follow the common interest, but rather has own, just as is a rule he will follow short-term market interests before long-term ones. Consequently, in order for associated labor to be able to decide on investments, it has to decide in a sovereign manner on income and its own accumulation. Today the state, the banks, and its technostructure are still doing this on its behalf.

Finally, until inflation is overcome, there can be no discussion of any serious concentration of funds, no matter who does it and in what manner. Inflation destroys all long-term economic undertakings by making them uncertain. It even imposes on the economy conduct that is directed toward short-term results even where there is an obvious interest in the long-term scheduling of development.

How Private Individuals Invest

In the last 30 years Yugoslavia has invested close to a third of its social product in its own development. It has been calculated that investments amounted to somewhere around 2 trillion new dinars (in 1972 prices), and that the average investment per year was about 60 billion dinars. It is little known that private individuals also contributed a considerable sum to these investments. If the "private sector" had a share in investment of about 300 billion dinars, this naturally should not be underestimated. In the last 30 years, this sector in Yugoslavia has created a fifth of the social product, and has had a share of somewhere over 17 percent in investments.

The participation of private individuals in investments has changed; it was observed to be about 15 percent of total investments, and after the 1965 economic reform grew to almost 18 percent. It is probably an interesting fact for research that before 1965 private investments constituted about 16 percent and social investments about 36 percent of their social products, while the situation changed considerably later on. In recent years the share of investments in the "private sector" has increased to almost 36 percent of the social product, compared to a decline to 32 percent in the social sector. Thus the private sector is not so insignificant an investor for our situation, and economic policy and economic science probably should devote somewhat greater attention to it.

Two Trillion Dinars

From the beginning of the 1950's to today, Yugoslavia has carried out extremely intensive and widespread investment activity. Prof Dragutin Marsenic of the Economic Faculty in Belgrade, taking 1972 prices as the base, calculated that in the period 1952-1981, 1,841.5 billion dinars were invested, i.e., an average of 61.4 billion per year.

On the average, this dynamic investment activity amounted to a third (31.2 percent) of the social product. If one adds to this the fact that in this period around 7.5 percent of the social product was in stocks (finished and unfinished products and raw materials), thus constituting investments in working capital, then it turns out that actually close to two-fifths of the social product each year was taken from current nonproductive consumption and directed toward investments.

In the last 30 years more than 68 percent of the total investments have been economic and about 32 percent have been noneconomic. Economic investments had a share of somewhat more than 21 percent in the social product, and noneconomic ones had a share of close to 10 percent. Since 1965 there has been an increase in the proportion of economic investments, and from then on they have had an average share of more than 23 percent in the social product, and more than 71 percent in total investments.

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